

A woman with long dark hair, wearing a dark, heavy coat and a dark turtleneck, stands in the foreground. She is holding a large white folder or document. To her right, a man with a beard and dark hair, wearing a blue jacket and blue cargo pants, stands looking towards the camera. The background shows a city street with buildings and trees under a clear sky.

FINANCIAL REVIEW 1999

swisscom
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Key Figures

CHF in millions, except where indicated

1998

1999

Swisscom Group			
Net revenues		10 461	11 160
Operating income before restructuring charges and depreciation (EBITDA)		4 472	4 441
Operating income before restructuring charges (EBIT)		2 851	2 737
Restructuring charges		(50)	249
Net income from continuing operations		2 074	2 208
Net income		1 555	2 391
Shareholders' equity		5 347	6 685
Equity ratio	%	31.6	32.0
Number of full-time equivalent employees at end of period	FTE	21 946	21 777
Average number of full-time equivalent employees	FTE	22 069	20 393
Revenue per employee	CHF in thousands	474	547
<hr/>			
Net cash provided by operating activities		3 574	3 366
Capital expenditures		1 305	1 468
Investments in subsidiaries, affiliated companies and other non-current assets		240	3 581
Free cash flow		2 235	(1 435)
<hr/>			
Swisscom AG			
Net income		1 011	1 828
Shareholders' equity		5 562	6 652
Dividend		809	1 103*
<hr/>			
Key figures per share			
Average number of shares outstanding (at CHF 25.- each)	in mio.	67.888	73.550
Price per share (high/low) (since October 5, 1998)	CHF	588.-/376.50	656.-/445.-
Net income from continuing operations	CHF	30.55	30.02
Net income	CHF	22.91	32.51
Shareholders' equity	CHF	72.70	90.89
Gross dividend	CHF	11.00	15.00*
Pay-out ratio	%	52.0	46.1*
Market capitalization at end of period		42 291	47 366

* according to the proposal of the Board of Directors to the Shareholders' Meeting

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Review of the group's results

Review of the group's results

Major events and developments

The second year following liberalization of the Swiss telecommunications market has been marked by fierce competition. This is particularly evident in fixed-line voice telephony and data services. A number of rounds of tariff reductions ensued, resulting in a decline in revenue from voice telephony. By contrast, despite the entry of two competitors, revenues in the booming mobile telecommunication market recorded a hefty increase. The acquisition of debitel doubled our customer base to more than 10 million and laid the foundation for future revenue growth. Sharpening competition led to higher expenditure, particularly in the areas of advertising and promotion. We were able to successfully dispose of our interests in Malaysia and India. Unisource N.V. also succeeded in disposing of substantially all of its investments.

Acquisitions

Swisscom purchased 74% of the shares of debitel Aktiengesellschaft ("debitel") on October 1, 1999. debitel is the biggest network-independent telecommunications company in Germany. It also has subsidiaries operating in the Netherlands, France, Belgium, Denmark and Slovenia. The acquisition price for 74% of the shares was CHF 3,394 million. The CHF 3,360 million difference between the purchase price and the fair value of net assets acquired was reported as an increase in goodwill and is amortized on a straight-line basis over 10 years. debitel was consolidated for the first time with effect from October 1, 1999. See note 22 of the consolidated financial statements.

Results of operations

	Year ended December 31	
Net revenues CHF in millions	1998	1999
Access	1 343	1 366
National traffic revenue	2 426	2 026
Outgoing international traffic revenue	1 301	829
Value-added and information services	484	584
Customer premises equipment	1 035	898
Fixed-line voice telephony	6 589	5 703
Mobile telecommunication services	1 791	2 344
Data and multimedia services	901	913
Carrier Services	813	950
debitel	-	922
Other revenues	367	328
Total net revenues	10 461	11 160

Fixed-line voice telephony

	1998	1999
Traffic volume in million minutes		
Local area traffic	11 004	10 991
National long-distance traffic	7 273	6 004
Total national traffic	18 277	16 995
Outgoing international fixed-line traffic	1 761	1 440
Traffic from value-added services	1 644	3 769
Number of channels at period end in thousands		
PSTN channels	3 883	3 622
ISDN channels	920	1 370
Total access channels	4 803	4 992

Strong growth in ISDN subscriptions – notably in the number of ISDN Light subscriptions – brought a 1.7% increase in access revenue over 1998. Customers upgrading from PSTN to ISDN brought about the downturn in PSTN channels.

Revenues from voice telephony were substantially influenced by several rounds of tariff cuts. In line with expectations, competitors increased their market share in long-distance and outgoing international telephony. Swisscom anticipates that competition and pressure on tariffs will continue through 2000. Consequently, tariffs were significantly reduced again with effect from March 1, 2000. National traffic revenues declined by 16.5% compared with 1998, reflecting the tariff reductions implemented in April and October 1999. The decline in national traffic volume was 7.0% compared with 1998. Extending the local area at the expense of long-distance combined with an erosion of market share led to a setback in traffic volume of 17.4% by comparison with 1998.

International telephony endured extremely tough competitive pressure. Swisscom reacted with big tariff reductions implemented in April, July and December 1999. A reduction in traffic of 18.2% resulted in a downturn in revenues of 36.3%.

Revenues from value-added and information services went up by 20.7%. This growth was mainly due to increased use of the 0800/0840 Business Number ISP, which, was fueled by the rise in internet traffic.

Customer premises equipment and customer service reported an overall reduction in turnover of 13.2%. This development is primarily due to falling prices, a revamped product portfolio, and declining revenues for leased telephony equipment.

Mobile telecommunications

Strong growth continued in mobile telecommunications, and revenues jumped by 30.9%. Tariffs were cut in June and November of 1999 in order to rise to the challenge of new competitors in the marketplace. Before competition came on the scene, Swisscom was the only mobile-network operator on the market. The number of customers increased by 36.5% to 2,282,000 subscribers during 1999. The number of customers for Swisscom's prepaid rechargeable card service (Natel-easy) totaled 890,000 subscribers by the year-end, a leap of 52.3% over 1998. Average monthly revenues per customer amounted to CHF 82, 15.5% below 1998. This decline reflects the tariff reductions, the burgeoning portfolio of prepaid card customers, and the increasing penetration among customers with lower call volumes. Average monthly revenues per customer excluding Natel-easy customers stood at CHF 119 by comparison with CHF 121 in 1998. The average number of minutes per user per month (excluding Natel-easy customers) increased from 113 in 1998 to 128 minutes in 1999. Increased revenues from roaming agreements and the booming SMS message service have made further sustained contributions to growth. Intensive competition and reduced tariffs will lead to a slowdown in growth rates for mobile telecommunications.

Data and multimedia services

Revenues generated by data and multimedia services increased by 1.3% over 1998. Revenues generated by leased lines and data-transmission services were in line with 1998 figures at CHF 681 million. Customers continued to migrate to higher-capacity leased lines, where sustained competitive pressure is bringing down average tariffs. Swisscom expects this trend to continue. Revenues from corporate communications improved by 51.8% to reach CHF 167 million. This growth was mainly generated by LAN-Interconnect and IP-Plus services. Revenues from multimedia services decreased by 41.4% to CHF 65 million. The decline is mainly due to telephone directories. This business was spun off in a joint venture with Publigroupe S.A., and from 1999 is accounted for under the equity method. In the absence of this effect, amounting to around CHF 50 million, revenues would have remained virtually stable – despite tariff reductions for Blue Window. The Blue Window Internet access portal increased the number of customers by 111.7% in 1999 to 322,900 subscribers. E-commerce revenues of CHF 32 million were recorded for the first time in 1999.

Review of the group's results

Carrier services

Carrier services increased revenues by 16.9% to CHF 950 million in 1999. National interconnection services for other telecommunications providers turned in revenues of CHF 292 million compared with CHF 39 million in 1998. Swisscom is supplying these services on the basis of the Long-Run Incremental Costing method (LRIC) from January 1, 2000, which resulted in lower tariffs for 2000 compared to 1999. Revenues from International Carriers' Carrier services decreased by 18.9% to CHF 484 million. Increased traffic volume was unable to offset the slide in average settlement rates from foreign operators. Revenues from broadcasting remained stable compared with 1998 at CHF 174 million.

debitel

debitel was consolidated for the first time from October 1, 1999 and achieved revenues of CHF 922 million in the last quarter of 1999. debitel will lead to a substantial increase in consolidated revenues from 2000.

Operating expenses

CHF in millions	1998	1999
Goods and services purchased	1 589	2 066
Personnel expenses	2 557	2 272
Other operating expenses	1 952	2 458
Depreciation and amortization	1 621	1 704
Restructuring charges	(50)	249
Total operating expenses	7 669	8 749

Excluding the one-time effects outlined below, operating expenses increased by 1.3%. Operating expenses for 1998 include a one-time expense of CHF 221 million for stamp tax owed upon Swisscom's incorporation. In 1998 an amount of CHF 67 million relating to UTA Telekom AG was included within operating expenses. In 1999 UTA was accounted for under the equity method. First time consolidation of debitel with effect from October 1, 1999 increased operating expenses by CHF 976 million (including amortization of goodwill of CHF 84 million) or 13.1%.

Goods and services purchased

The increase of CHF 477 million in goods and services purchased includes CHF 453 million for the first-time consolidation of debitel. Expenses for customer premises equipment increased in line with rising revenues generated by the sale of mobile phones. The advent of competition means that traffic is increasingly terminated on the networks of other operators and gives rise to an additional source of expenditure for Swisscom that was not incurred in the past. Swisscom expects that increasing competition will continue to drive up these expenses. Expenditure on these traffic fees was CHF 153 million in 1999. By contrast, reduced tariffs brought down expenditure on international traffic fees.

Personnel expenses and number of employees

	1998	1999
Average number of full-time equivalent employees	22 069	20 393
Number of full-time equivalent employees at end of period	21 946	21 777

The acquisition of debitel increased the headcount by 2,523 employees as at December 31, 1999 and staff costs by CHF 49 million in 1999. In the prior year 372 employees of UTA Telekom AG, which is accounted for under the equity method in 1999, were included. Excluding these effects, staff numbers fell by 2,320 employees or 10.8%, which was in line with planned rationalization. The reduction in human resources brought down personnel expenses from CHF 2,557 million in 1998 to CHF 2,272 million in 1999. On January 1, 1999 all cleaning and property building maintenance staff (660 full-time equivalents) were outsourced. Human resources continued to be reduced in non-growth businesses. Further reductions in personnel expenses are required to offset ongoing pressure on margins. Unions signed an agreement on job cuts in May 1999. See restructuring charges.

Other operating expenses

Other operating expenses increased by CHF 506 million to CHF 2,458 million in 1999 compared to 1998. Excluding the effects of the one-time CHF 221 million stamp tax incurred in 1998 and the effect of the CHF 379 million first-time consolidation of debitel, other operating expenses increased by CHF 348 million or 20.1%.

The rise in rental expenditure is due to the debitel effect and the impact of outsourced cleaning and building-maintenance services in 1999. These services are bought in new from a third party.

Technical advances led to equipment being decommissioned and replaced. Losses on disposal of fixed assets totaled CHF 174 million.

EDP expense increased by CHF 110 million to CHF 433 million, reflecting the upgrading and expansion of the IT infrastructure and the Millennium Project. Essential expansion of capacity for billing systems also incurred additional expenditure.

Advertising and promotion expense increased by CHF 326 million to CHF 552 million in 1999. CHF 180 million of this increase relates to the expenses incurred by debitel. The massive increase was the result of increased marketing expenses in a fiercely competitive environment. Intensive competition in mobile communications led to a substantial increase in incentives for mobile telephony dealers.

The increase in other operating expenses is primarily due to the first-time consolidation of debitel.

Depreciation and amortization

The increase in 1999 compared to 1998 primarily reflects the amortization expense of CHF 84 million relating to the goodwill of debitel.

Restructuring charges

The rapid restructuring of Swisscom to turn it into an efficient, competitive company made further cuts in the labor force inevitable to enable Swisscom to operate in an environment of intense competition and falling prices. Swisscom took a number of steps in 1999 to reduce the number of employees and reached an agreement with the unions on staff reductions. The basic agreement includes measures for voluntary early retirement, an early leave program and the establishment of an outplacement program. Approximately 570 employees accepted the offer of early retirement and the majority will leave the company in 2000. Surplus employees not entitled to take advantage of the early retirement plan were either released from their duties or joined an outplacement program. 315 released employees left Swisscom in 1999. A further 934 employees were identified as being eligible to join the outplacement program. Around half of these joined the program during the course of 1999, and the remainder of the employees will join the program at the beginning of 2000. 159 employees had left Swisscom by the end of 1999. The action taken involved total expenses of CHF 249 million in 1999. The costs of the program include the increase in the pension liability for those taking early retirement and the expenditure expected for the early leave and outplacement programs.

Swisscom also intends to introduce additional rationalization measures during 2000, which are expected to result in further personnel reductions. These restructuring programs will lead to additional charges in 2000.

Review of the group's results

Financial expense and financial income

Financial expense decreased to CHF 259 million by comparison with CHF 407 million in 1998. This positive development is primarily due to debt repayments in 1998 and 1999. Penalties on early extinguishment of debt in 1999 amounted to CHF 7 million compared with CHF 81 million in 1998. The average interest rate on interest-bearing debt remained constant compared to 1998.

Financial income was CHF 220 million in 1999 compared to CHF 93 million in 1998. As part of the successful IPO of Infonet Services Corp. in December 1999 we were able to dispose of a number of our shares and realized a gain of CHF 58 million. Swisscom concluded three crossborder lease transactions during 1999, resulting in a gain of CHF 108 million. Income on term deposits also increased in relation to 1998.

Income taxes

The effective tax rate in 1999 was 21.8% compared with 12.3% in 1998. The low rate in 1998 reflects the deferred credit recorded on incorporation and a benefit to write off investments in affiliated companies.

Equity in net result of affiliated companies

The equity in net gain of affiliated companies was CHF 301 million in 1999 compared with a loss of CHF 212 million in 1998. The gain primarily reflects Swisscom's share of CHF 408 million in the positive result achieved by the Unisource joint venture. Unisource N.V. disposed of significant holdings during the year under review. Furthermore, 1999 saw restructuring of the business of AUCS Communication Services, a subsidiary of Unisource, together with Infonet Services Inc., in which Swisscom has an 18% stake. See note 21 of the consolidated financial statements. Equity in net loss for UTA Telekom AG in Austria and tesion GmbH & Co. KG in Germany, both currently undergoing expansion, totaled CHF 97 million.

Discontinuing operations

In March 1999, the Board of Directors announced the withdrawal from business activities in India and Malaysia. This decision was a consequence of the strategy of focusing our international portfolio and disposing of holdings with continuing losses. The required write down of the investments and provisions for the withdrawal were made in the financial statements for the year ending December 31, 1998. Our investment in Malaysia was sold for CHF 178 million in 1999. The sale realized a gain of CHF 183 million, net of income tax of CHF 50 million, and including the reversal of provisions that were not necessary.

An agreement on the sale of the Indian operation was concluded in December 1999, and this sale was closed in January 2000. This transaction recognized a gain of CHF 68 million, net of income tax of CHF 19 million, which will be recorded in 2000.

Net income

Earnings before interest, depreciation and restructuring charges (EBITDA) was CHF 4,441 million, remaining relatively stable compared to 1998. The first-time consolidation of debitel contributed EBITDA of CHF 39 million for the last quarter in 1999. Earnings before interest (EBIT) of CHF 2,488 million in 1999 was below EBIT of CHF 2,901 million in 1998 due primarily to the amortization of goodwill amounting to CHF 87 million and restructuring charges of CHF 249 million. Reduced financial expense combined with the improved result generated by affiliated companies, raised net income from continuing operations by 6.5% to CHF 2,208 million. As a result of no further losses recorded on discontinuing operations and the gain recorded on the sale of Malaysia, net income increased from CHF 1,555 million in 1998 to CHF 2,391 million in 1999.

Liquidity and capital resources	<p>Swisscom's primary source of liquidity is cash generated from operations. Cash generated from operations declined from CHF 3,574 million in 1998 to CHF 3,366 million in 1999, reflecting primarily higher operating expenses paid in 1999 compared to 1998.</p> <p>The principal investing transaction in 1999 was the acquisition of debitel. The acquisition, which cost CHF 3,296 million net of cash acquired, was financed partly by the issuance of short-term debt of CHF 1,700 million and the rest by surplus cash. This loan is due for repayment during the first half of 2000. The repayment will primarily be funded by the proceeds from the disposal of our share in Cablecom, which is expected to close in the first half of 2000. See note 21 of the consolidated financial statements.</p> <p>Swisscom has access to uncommitted lines of credit which would provide additional sources of liquidity should the need arise.</p>
Capital expenditures	<p>Capital expenditures increased by 12.5% in 1999 compared with 1998. In 1999, the fixed-line telephony segment experienced increased capital expenditures, due to the realization of projects postponed from the prior year. The fully digitalized network will further be adapted to new technologies, such as broadband. As a consequence an increase in capital expenditures can be expected in this area. Also, in order to provide a high quality service, capital expenditures will continue to be made in the mobile telecommunications infrastructure.</p>
Year 2000	<p>Swisscom initiated a comprehensive Millennium Project designed to minimize the risks associated with the date change to the year 2000 for Swisscom and its customers. The project plan was successfully implemented, and there were no significant problems in business transactions with customers and suppliers. Significant costs were incurred during 1998 and 1999 for software and hardware upgrades, replacement of equipment, consultancy fees, and internal personnel. Minimal expenditure is still required for replacement of further equipment during the course of 2000. Total expenditure on the Millennium Project (including both third-party and internal costs) amounted to CHF 166 million, of which CHF 115 million was incurred during 1999.</p>
Outlook 2000	<p>In the year 2000, debitel will be included in the consolidated financial statements for the first complete financial year. This will entail a substantial increase in revenues but a reduction in both EBITDA and EBIT margins as debitel, being a service provider, has lower margins than Swisscom. By contrast, Swisscom anticipates ongoing fierce competition and sustained downward pressure on prices for telecommunications services. Swisscom has already introduced massive reductions in charges for voice telephony with effect from March 1, 2000. These cuts will reduce revenues in the domestic Swiss market, which cannot be offset by cost savings in the short term. To this end, further measures to increase efficiency and reduce the size of the labor force will be introduced in 2000. Swisscom is therefore anticipating lower operating income compared to 1999. A gain of around CHF 1,350 million will be realized from the disposal of Swisscom's stake in Cablecom Holding AG. Swisscom is also planning to dispose of part of its commercial real estate. Appropriate market conditions and a successful conclusion to this project should result in book gains from this transaction. Due to these extraordinary transactions Swisscom expects to improve net income in 2000.</p>

Report of Group Auditors

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

As auditors of the group, we have audited the accompanying consolidated financial statements of Swisscom AG and subsidiaries (statement of operations, balance sheet, cash flow statement, statement of shareholders' equity and notes on pages 13 to 45) for the year ended December 31, 1999.

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

Our audit was conducted in accordance with auditing standards promulgated by the profession and with the International Standards on Auditing issued by the International Federation of Accountants (IFAC). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position, results of operations and cash flows in accordance with International Accounting Standards (IAS) and comply with the law and the accounting provisions as contained in the Listing Rules of the Swiss Exchange.

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

PricewaterhouseCoopers AG

Peter Wittwer

Julie Fitzgerald

Berne, March 21, 2000

Consolidated statement of operations

Year ended December 31

CHF in millions, except per share amounts	Note	1998	1999
Net revenues	3	10 461	11 160
Capitalized cost	4	109	77
Total		10 570	11 237
Goods and services purchased	5	1 589	2 066
Personnel expenses	6,7,8	2 557	2 272
Other operating expenses	9	1 952	2 458
Depreciation and amortization		1 621	1 704
Restructuring charges	10	(50)	249
Total operating expenses		7 669	8 749
Operating income		2 901	2 488
Financial expense	11	(407)	(259)
Financial income	12	93	220
Income before income taxes, equity in net (loss) income of affiliated companies and minority interest		2 587	2 449
Income tax expense	13	(319)	(535)
Income before equity in net (loss) income of affiliated companies and minority interest		2 268	1 914
Equity in net (loss) income of affiliated companies	14	(212)	301
Minority interest in (loss) income of consolidated subsidiaries		18	(7)
Net income from continuing operations		2 074	2 208
Discontinuing operations	35	(519)	183
Net income		1 555	2 391
Basic earnings per share	15		
– on continuing operations		30.55	30.02
– on discontinuing operations		(7.64)	2.49
– net income		22.91	32.51
Diluted earnings per share	15		
– on continuing operations		30.55	29.98
– on discontinuing operations		(7.64)	2.49
– net income		22.91	32.47

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

Consolidated balance sheet

Year ended December 31

CHF in millions	Note	1998	1999
Assets			
Current assets			
Cash and cash equivalents	16	1 759	1 211
Securities available for sale	17	28	65
Trade accounts receivable	18	2 358	2 648
Inventories	19	208	240
Other current assets		221	809
Total current assets		4 574	4 973
Non-current assets			
Property, plant and equipment	20	11 101	10 723
Investments in affiliated companies	21	749	713
Goodwill and other intangible assets	22	125	3 339
Other financial assets	23	295	1 112
Deferred tax assets	13	100	58
Total non-current assets		12 370	15 945
Total assets		16 944	20 918
Liabilities and shareholders' equity			
Current liabilities			
Short-term debt	24	1 264	4 049
Trade accounts payable		925	1 265
Accrued pension cost	8,10	452	384
Current tax liabilities	13	225	457
Other current liabilities	25	1 548	1 740
Total current liabilities		4 414	7 895
Long-term liabilities			
Long-term debt	24	4 245	3 073
Finance lease obligation	28	517	637
Accrued pension cost	8,10	1 399	1 864
Accrued liabilities	26	696	507
Deferred tax liabilities	13	10	23
Other long-term liabilities	27	273	203
Total long-term liabilities		7 140	6 307
Total liabilities		11 554	14 202
Minority interest in subsidiaries		43	31
Shareholders' equity			
Share capital	29	1 839	1 839
Additional paid-in capital	29	2 273	2 386
Retained earnings		1 232	2 475
Treasury stock		–	(1)
Unrealized market value adjustment on securities available for sale	17	1	–
Cumulative translation adjustment		2	(14)
Total shareholders' equity		5 347	6 685
Total liabilities and shareholders' equity		16 944	20 918

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

Consolidated cash flow statement

Year ended December 31

CHF in millions	1998	1999
Income before income taxes, equity in net (loss) income of affiliated companies and minority interest	2 587	2 449
Adjustments for:		
Depreciation and amortization	1 621	1 704
Loss on disposal of fixed assets, net	41	176
Financial expense	407	259
Financial income	(93)	(220)
	4 563	4 368
Changes in operating assets and liabilities, net of effects of acquisitions and disposals of subsidiaries:		
Increase in trade accounts receivable	(303)	(9)
Increase in inventories	(39)	(6)
Increase in other assets	(97)	(501)
Increase in trade accounts payable	6	35
Increase (decrease) in other current and accrued liabilities	273	(159)
Decrease in other long-term liabilities	(65)	(51)
Decrease in accrued pension cost	(426)	(65)
Cash generated from operations	3 912	3 612
Interest paid	(369)	(265)
Income taxes paid	(26)	(135)
Interest received	45	34
Dividends received	12	12
Gain from crossborder lease transactions	-	108
Net cash provided by operating activities	3 574	3 366
Cash flows from investing activities:		
Capital expenditures	(1 305)	(1 468)
Proceeds from sale of fixed assets	181	44
Acquisition of subsidiaries, net of cash acquired	(79)	(3 296)
Investments in affiliated companies	(91)	(8)
Sale (purchase) of securities available for sale, net	25	(21)
Purchases of other investments	(14)	(29)
Proceeds from sale of other investments	-	47
Loans receivable granted and other financial assets, net	(56)	(199)
Proceeds from sale of discontinuing operations	-	178
Other cash flow from investing activities, net	-	(49)
Net cash used in investing activities	(1 339)	(4 801)
Cash flows from financing activities:		
Repayment of long-term debt	(1 534)	(516)
Issuance (repayment) of short-term debt, net	(454)	2 056
Issuance of long-term debt	-	157
Issuance of shares	2 433	-
Purchased treasury stock and call options	(33)	(1)
Profit distribution paid/dividends	(1 144)	(809)
Net cash (used in) provided by financing activities	(732)	887
Net increase (decrease) in cash and cash equivalents	1 503	(548)
Cash and cash equivalents at beginning of year	256	1 759
Cash and cash equivalents at end of year	1 759	1 211

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

Consolidated cash flow statement

Significant non-cash transactions

Swisscom sold certain technical equipment for CHF 118 million in 1998, which is included in proceeds from sale of fixed assets. Swisscom concurrently entered into agreements to lease the equipment back under finance leases.

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

Consolidated statement of shareholders' equity

CHF in millions	Share capital	Additional paid-in capital	Retained earnings	Treasury stock	Unrealized market value adjustment on securities	Cumulative translation adjustment	Total shareholders' equity
Balance at December 31, 1997	–	–	1 352	–	39	(161)	1 230
Unrealized market value adjustment on securities available for sale	–	–	–	–	(38)	–	(38)
Translation adjustments	–	–	–	–	–	163	163
(Losses) gain not recognized in statement of operations	–	–	–	–	(38)	163	125
Net income	–	–	1 555	–	–	–	1 555
Conversion into share capital	1 650	–	(1 650)	–	–	–	–
Share capital issued, net of issuance costs	189	2 273	–	–	–	–	2 462
Purchased call options	–	–	(25)	–	–	–	(25)
Balance at December 31, 1998	1 839	2 273	1 232	–	1	2	5 347
Unrealized market value adjustment on securities available for sale	–	–	–	–	(1)	–	(1)
Translation adjustments	–	–	–	–	–	(16)	(16)
Losses not recognized in statement of operations	–	–	–	–	(1)	(16)	(17)
Net income	–	–	2 391	–	–	–	2 391
Dividend paid	–	–	(809)	–	–	–	(809)
Purchase of treasury stock	–	–	–	(1)	–	–	(1)
Capital contribution to affiliated company. See note 21.	–	113	–	–	–	–	113
Accrued pension cost adjustment. See note 8.	–	–	(339)	–	–	–	(339)
Balance at December 31, 1999	1 839	2 386	2 475	(1)	–	(14)	6 685

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

Notes to the consolidated financial statements

1 Description of business and relationship with the Swiss Confederation

Description of business

Swisscom AG and its subsidiaries (referred to as Swisscom) is the principal provider of telecommunications services in Switzerland, offering a comprehensive range of services to residential and business customers. Swisscom's major lines of business include providing national and international fixed-line voice telecommunications, mobile telephony and other mobile telecommunications services, leased lines and managed bandwidth services, integrated corporate communications solutions and wholesale network services to other telecommunications carriers. Swisscom AG is a stock corporation incorporated in Switzerland, domiciled in Ittigen (Berne), and is 65.5% owned by the Swiss Confederation (Confederation).

Historically, Swisscom's operations were part of the Swiss PTT, a dependent agency of the Swiss Confederation which operated the state monopolies for both public telecommunications (Swiss Telecom PTT) and postal services (the Swiss Post). Under the provisions of the Telecommunications Enterprise Act of 1997 ("Telekommunikationsunternehmungsgesetz", the TUG), Swiss Telecom PTT, the predecessor of Swisscom, and the Swiss Post were separated into independent organizations and Swiss Telecom PTT was transformed into a special statutory stock corporation under the name Swisscom AG. As required by the TUG, on May 13, 1998, the Federal Council approved Swisscom's Articles and its January 1, 1998, opening balance sheet under Swiss Law.

In October 1998, Swisscom and the Confederation completed a global public offering of 34.5% of Swisscom's share capital. Prior to this offering, Swisscom was wholly owned by the Confederation.

Relationship with the Confederation

The Confederation is the majority shareholder of Swisscom. The TUG states that the Confederation must hold a majority of the capital and voting rights of Swisscom. Any reduction of the Confederation's holding below a majority would require a change in law necessitating action by the Federal Assembly, which in some circumstances may also be subject to a referendum by Swiss voters. As the majority shareholder, the Confederation has the power to control any decision at shareholders' meetings requiring a majority vote, including the election of the members of the Board of Directors and the approval of dividend payments.

Transactions with the Confederation

Swisscom supplies telecommunication services to and acquires materials and services from various departments and agencies of the Confederation. All such transactions are made within normal customer/supplier relationships on terms and conditions no more favorable than those available to other customers and suppliers. In the aggregate the departments and agencies of the Confederation comprise Swisscom's largest customer.

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

2 Summary of significant accounting policies

Basis of presentation

The consolidated financial statements of Swisscom have been prepared under the historical cost convention and in accordance with International Accounting Standards (IAS) as issued by the International Accounting Standards Committee (IASC) as explained below and in conformity with the legal provisions of the Swiss Code of Obligations.

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

Principles of consolidation

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

Investments and joint ventures where Swisscom exercises significant influence but does not have control are accounted for using the equity method. Under the equity method, investments are disclosed as investments in affiliated companies and presented at their fair value as of the date of acquisition adjusted for Swisscom's share in retained earnings (losses) resulting after the date of acquisition.

Investments in which Swisscom's interest is less than 20% are recorded at cost less appropriate allowances in the case of a permanent impairment in value.

A schedule with all significant subsidiaries and investments in affiliated companies is presented in note 34.

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

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

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

Goodwill

Differences between the purchase price of acquisitions and the fair value of net assets acquired are classified as goodwill from acquisitions. Goodwill and other intangible assets are amortized on a straight-line basis over their estimated useful life of 5 to 10 years.

Foreign currency translation

Transactions denominated in foreign currencies are recorded at the rate of exchange prevailing at the dates of transaction, or at a rate that approximates that rate. At the end of the accounting period the unsettled balances in foreign currency receivables and liabilities are valued at the rate of exchange prevailing at balance sheet date, with resulting exchange rate differences charged to income. If such balances are hedged, the hedged exchange rate is used for conversion.

Assets and liabilities of subsidiaries and affiliated companies accounted for using the equity method reporting in currencies other than Swiss francs are translated at the rates of exchange prevailing at balance sheet date. Goodwill arising on the acquisition of foreign entities is treated as an asset of the foreign entity and translated at the closing rate. Income, expenses and cash flows are translated at the average exchange rates for the period. Translation gains and losses are recorded as cumulative translation adjustments in shareholders' equity.

Notes to the consolidated financial statements

Cash and cash equivalents

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

Securities available for sale

Securities available for sale are carried at market and are comprised of marketable equity securities and bonds classified as short-term. Unrealized gains are reported separately as an unrealized market value adjustment on securities within consolidated shareholders' equity. Unrealized losses to the extent that they are reversals of previous gains are also recorded within the unrealized market value adjustment on securities. All other losses are recognized as an expense as incurred. Realized gains and losses, including previous market value adjustments, are recorded as income or expense as applicable.

Trade accounts receivable

Trade accounts receivable are recorded at nominal value less an allowance for receivables whose collection is considered uncertain.

Inventories

Inventories consist primarily of customer premises equipment for resale and supplies used in constructing and maintaining the network. Inventories are valued at the lower of cost and net realizable value using the weighted average method. Allowances are made for obsolete and slow-moving items.

Property, plant and equipment

Land, buildings, machinery and equipment are recorded at cost less accumulated depreciation. Leasehold improvements are depreciated over the shorter of their estimated useful life and the remaining term of the lease. Repairs and maintenance are expensed as incurred while major renovations and improvements are capitalized as property, plant and equipment and depreciated over their estimated useful lives. Borrowing costs incurred during the construction of property, plant and equipment are expensed as incurred.

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

	Years
Buildings	15–40
Cable and ducts	14–20
Transmission equipment	5–12
Switching equipment	8–10
Customer premises equipment	5–20
Broadcasting equipment	10
Vehicles	5–7
Machinery, office and auxiliary equipment	4–15
EDP equipment	3–5

Leases

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

Operating lease payments are treated as rentals and charged to income as incurred.

Impairment of long-lived assets

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

Dismantlement and restoration costs

Swisscom has a legal obligation to dismantle analog transmitter stations and to restore the property owned by third parties on which the stations are situated. The estimated costs are accrued.

Revenue recognition

Net revenues include all sales of goods and services, net of any value-added taxes, rebates and discounts. Revenues are recognized when goods are delivered or services are rendered. Revenues earned from foreign carriers for international incoming calls are included in revenues in the period in which the calls occur.

Revenue received in advance

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

Capitalized cost

Swisscom's consolidated statement of operations is prepared on the total-cost basis commonly used in Switzerland. Costs to be capitalized and expensed in future periods, such as costs capitalized on construction projects, are classified in the statement of operations as revenues with a corresponding amount included in expenses such that the net effect is zero.

Stock-based compensation

Compensation cost for shares issued to employees is measured at the date of transaction as the excess of the quoted market price of Swisscom's stock over the employee purchase price. These costs are charged directly to equity in the period of issuance. Swisscom does not currently recognize any expense associated with stock appreciation rights. See note 7.

Retirement benefits

Swisscom contributes to comPlan, a defined benefit plan, which provides retirement benefits for the majority of its employees. For subsidiaries outside Switzerland, Swisscom contributes to a number of separate pension plans. The pension cost in each period is calculated on the basis of a yearly actuarial valuation. All actuarial gains and losses are spread forward over the average remaining service lives of employees. On January 1, 1999, Swisscom adopted IAS 19 (revised) "Employee benefits".

Swiss pension law provisions require that the employer at a minimum matches the contributions made by its employees.

Restructuring charges

Costs relating to restructuring plans for continuing operations, including the reduction of excess staffing, the cessation of certain activities or the streamlining of facilities and operations and other restructuring measures, are recorded in the period management commits itself to a plan and it is probable that a liability has been incurred and the amount can be reasonably estimated.

Notes to the consolidated financial statements

Income taxes

Prior to its incorporation on January 1, 1998, Swisscom was not subject to income taxes. Upon incorporation, Swisscom became subject to income tax from January 1, 1998, and adopted IAS 12 "Income taxes".

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

Research and development

Research and development costs are expensed as incurred.

Derivative financial instruments

Derivative transactions have been undertaken for purposes of hedging U.S. dollar lease obligations. The derivative instruments have been designated and are effective as hedges of U.S. dollar foreign currency transaction exposure. Swisscom has entered into currency swaps and foreign exchange contracts that match the payment of the lease obligation. As there is a match between the lease obligation and the derivative financial instruments, the foreign currency effects on these financial instruments are offset. Thus, there is no currency fluctuation effect on the statement of operations or the lease obligation.

Swisscom also enters into limited hedging for settlement of international telephone traffic through foreign exchange swaps. Outstanding contracts are marked-to-market at the end of each reporting period, with any gain or loss recorded in the statement of operations.

Related parties

Under IAS, transactions with the Confederation, including its departments and agencies, are excluded from the scope of related party disclosures.

Earnings per share

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

Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year. The comparatives have been adjusted or extended to take into account the requirements of the following revised or new International Accounting Standards which Swisscom implemented in 1999:

- IAS 1 Presentation of financial statements
- IAS 14 Segment reporting

	CHF in millions	1998	1999
3 Net revenues			
	Fixed-line voice telephony	6 589	5 703
	Mobile telecommunications services	1 791	2 344
	Data and multimedia services	901	913
	Carrier services	813	950
	debitel	–	922
	Other revenues	367	328
	Total net revenues	10 461	11 160

4 Capitalized cost Capitalized cost includes direct material and labor costs related to the construction of buildings and technical equipment with no interest allocation included.

	CHF in millions	1998	1999
5 Goods and services purchased			
	Raw material and supplies purchased	140	68
	Customer premises equipment purchased for resale	354	514
	National traffic fees	–	153
	International traffic fees	724	1 079
	Services purchased	151	174
	Services purchased from affiliated companies	220	78
	Total goods and services purchased	1 589	2 066

International traffic fees represent settlement payments to foreign operators for carrying out-going international traffic, providing roaming services to Swisscom mobile customers using their handsets in foreign countries, and the traffic fees incurred by debitel and other international subsidiaries.

Services purchased from affiliated companies represent mainly the cost of data services purchased from AUCS, an affiliated company.

	CHF in millions	1998	1999
6 Personnel expenses			
	Salaries and wages	2 017	1 787
	Social security expenses	148	138
	Pension cost	288	255
	Other personnel expenses	104	92
	Total personnel expenses	2 557	2 272

7 Stock-based compensation

Stock issuance

In connection with Swisscom's public offering in October 1998, 134,907 shares were issued to employees at a discount of 20% from the initial public offering price. The discount awarded to employees totaled CHF 9 million and has been recorded as a reduction of the proceeds from the public offering.

Notes to the consolidated financial statements

Stock appreciation rights

In conjunction with Swisscom's public offering in October 1998, the Company issued shares to management and employees pursuant to three leveraged share ownership plans. The Leveraged Executive Asset Plans ("LEAPs") provided enhanced stock appreciation rights to middle and upper management, Executive Board and Board of Director members. Under these LEAPs, eligible participants purchased shares in the global offering at the initial public offering price. Such shares contain appreciation rights whereby if the market price of a share at the end of five years is equal to or greater than the base appreciation price, the participant will receive additional shares with a market value equal to a multiple of the increase over the base appreciation price. Each LEAP has different vesting periods, with all appreciation rights being vested 5 years from the issuance date. Included in this program is 23,276 shares issued to employees under a Super Share Plan that have the additional benefit that if the market price of a share at the end of five years is equal to or less than the initial public offering price, the shares will be automatically resold to Swisscom at a price equal to the initial public offering price.

Movements in the number of share appreciation rights outstanding were as follows:

	1998	1999
At beginning of year	–	265 559
Granted	265 559	–
Lapsed	–	(9 323)
At end of year	265 559	256 236

Vested appreciation rights total 93,104 rights at December 31, 1998 and 131,487 rights at December 31, 1999. All rights are automatically exercised in 2003.

No compensation cost is recognized in the financial statements for the fair value or the intrinsic value of the stock appreciation rights granted.

8 Retirement benefits

The majority of Swisscom's employees are covered by defined benefit plans, which are either funded or unfunded.

In connection with the separation of Swisscom from the Swiss Post, Swisscom assumed responsibility for its employees' retirement benefits under Swiss law, which were provided through the "Pensionskasse des Bundes" ("PKB"). Historically, the Confederation's practice was to fund this benefit plan in an amount of approximately two-thirds of the total pension liability. At December 31, 1997, Swisscom's assumed pension obligations under Swiss law were underfunded in the amount of CHF 2,251 million (the "Pension Gap").

The Pension Gap amount was calculated based on data provided by the PKB (the "Base Data"). The Confederation has provided a guarantee to Swisscom pursuant to which it has agreed to assume liability for any amount by which the Pension Gap exceeded CHF 2,251 million at December 31, 1997 due to errors in the Base Data. If the Pension Gap was less than CHF 2,251 million at that date due to such errors, this guarantee would require the PKB to reimburse Swisscom for the overpayment. In addition to providing Swisscom with protection against an overestimation or underestimation of its Pension Gap liability under Swiss law, the Confederation has provided Swisscom with a guarantee pursuant to which it will protect Swisscom against loss arising from an underestimation of its accrued pension cost under IAS at December 31, 1997. During 1999 the final evaluation of the Base Data by the PKB and Swisscom has been performed and mutual agreement as to its accuracy by Swisscom and the PKB has been reached. Based on this final agreement Swisscom received a payment of CHF 12 million from the Confederation.

During 1998 Swisscom decided to transfer its pension plan for active employees from the PKB to comPlan effective January 1, 1999. In connection with this transfer, Swisscom approved certain plan amendments for active employees which increased employee benefits upon transfer to the new plan. These amendments resulted in an increase in the projected benefit obligation of the plan of CHF 297 million, of which CHF 91 million was recognized upon adoption of IAS 19 (revised), and the remaining amount will be amortized from the effective date over the average expected remaining service lives of active employees.

Effective December 31, 1998, Swisscom settled the majority of its outstanding pension liability for retired employees with the PKB. The PKB assumed the plan assets and accumulated benefit obligation, as calculated under Swiss law, of all retired employees as of December 31, 1998. Swisscom did not retain any real or contingent liability related to the accumulated benefit obligation. However, Swisscom retained liability for any future pension indexation (currently estimated at 1%) not covered by a return on plan assets in excess of the government prescribed discount rate plus an account maintenance fee. As a result of this settlement, the plan assets and related projected benefit obligation, excluding the amount related to pension indexation, of retired employees have been removed from Swisscom's pension plan on December 31, 1998. This settlement resulted in a loss of CHF 125 million, calculated as the unrecognized net actuarial loss at the date of settlement times the percentage of the total projected benefit obligation settled, and has been recorded in net periodic pension cost during 1998.

ComPlan covers the risks of old age, death and disability in accordance with Swiss pension legislation. Retirement benefits are provided based on a defined final pay formula. The cost and obligations resulting from the sponsoring of this defined benefit plan are determined on an actuarial basis using the projected unit credit method which reflects service rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries. The latest actuarial valuation was performed using base data as at December 31, 1999. Current service costs are charged to income in the periods in which the services are rendered. The effects of plan amendments and changes in actuarial assumptions are systematically charged or credited to income over a period approximating the average expected remaining working lives of participating employees.

The adoption of IAS 19 (revised) "Employee benefits" resulted in an increase in the accrued pension cost. The main reasons for the increase in accrued pension cost are the decrease of the discount rate from 5% to 4.5% and the recognition of unamortized actuarial losses and the vested portion of unamortized past service costs.

CHF in millions

Accrued pension cost at December 31, 1998	1 851
Increase in accrued pension cost upon adoption of IAS 19 (revised)	452
Accrued pension cost at January 1, 1999	2 303

The increase of accrued pension cost by CHF 452 million has been charged against equity in accordance with the transitional provisions of the standard. A corresponding deferred tax benefit of CHF 113 million was recorded directly through equity. The net adjustment to equity amounts to CHF 339 million.

Swisscom determined that, as a result of the various settlements, curtailments, special terminations as well as other factors, it was impracticable to restate prior years. Swisscom does not believe that the net periodic pension cost before curtailments, special termination benefits and settlements would be materially different from that previously reported.

Net periodic pension cost includes the following components:

CHF in millions	1998	1999
Service cost on benefits earned	108	171
Interest cost on projected benefit obligation	371	234
Expected return on plan assets	(316)	(152)
Past service cost	-	14
Final settlement of the guarantee from the Confederation	-	(12)
Net periodic pension cost before curtailment and special termination benefits and settlement	163	255
Curtailment and special termination benefits	-	147
Settlement loss	125	-
Net periodic pension cost	288	402

Notes to the consolidated financial statements

The curtailment and special termination benefits have been recorded under restructuring charges and represent increased pension benefits to employees who accepted voluntary early retirement offers from Swisscom in 1999. The actual return on plan assets was 5.9%.

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

CHF in millions	1998	1999
Amounts recognized in the balance sheet:		
Present value of funded obligations	5 028	5 754
Fair value of plan assets	(2 713)	(3 419)
Benefit obligation in excess of plan assets	2 315	2 335
Unrecognized actuarial (losses) gains	(167)	25
Unrecognized prior service cost	(297)	(112)
Liability in the balance sheet	1 851	2 248

CHF in millions	1998	1999
Movement in the liability recognized in the balance sheet:		
At beginning of year		
As previously reported	2 277	1 851
Effect of adopting IAS 19 (revised)	-	452
As restated	2 277	2 303
Net periodic pension cost ¹⁾	288	414
Contributions paid	(714)	(469)
At end of year	1 851	2 248
Less current portion	(452)	(384)
Long-term accrued pension cost	1 399	1 864

¹⁾ Excluding final settlement of the guarantee from the Confederation.

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

	1998	1999
Discount rate	5.0%	4.5%
Rate of increase in future compensation levels	3.2%	3.4%
Expected long-term rate of return on plan assets	5.0%	5.0%

The pension plans outside of Switzerland are insignificant.

9 Other operating expenses

CHF in millions	1998	1999
Rent	132	197
Repairs and maintenance	286	289
Loss on disposal of fixed assets, net	41	174
Energy	82	89
Insurance	15	18
EDP	323	433
Advertising and promotion	226	552
General and administration	219	177
Stamp tax on incorporation	221	-
Miscellaneous operating expenses	407	529
Total other operating expenses	1 952	2 458

Stamp tax on incorporation

During 1998, Swisscom incurred a stamp tax of CHF 221 million that was owed upon its incorporation on January 1, 1998. Swiss law requires a company to pay a stamp tax calculated as 1% of the fair market value of the net assets that are contributed to the legal entity at the date of incorporation. As there is no difference in equity in Swisscom and its predecessor Swiss Telecom PTT, Swisscom considers this charge a cost of incorporation and not a cost of raising capital. Accordingly, the charge has been recognized as an expense in the consolidated statement of operations in 1998.

10 Restructuring charges

1999 Restructuring

During 1999, Swisscom took various steps to reduce the number of employees that resulted in incurring CHF 249 million of expenses. The charge includes enhanced pension benefits, early leave program and the establishment of an outplacement program. The costs of the program include the following:

CHF in millions	
Early retirement program	147
Early leave program	44
Outplacement program	65
Revision of prior restructuring provisions	(7)
Total restructuring charges	249

Swisscom established, for a short period of time, several voluntary plans to encourage certain employees to retire early by providing them with additional years of credited service. The plans generally allow these employees to receive full pension benefits. The expense of CHF 147 million represents the increase in the pension liability, as the employees will not need to work the normal number of years to receive full benefits. The liability is included as part of the accrued pension liability. See note 8. The number of employees that accepted the offer was 573, and the majority will leave Swisscom by the end of 2000 with the remaining employees leaving in 2001 and a small portion in 2002.

Swisscom established an early leave program and involuntary outplacement program for certain employees that were not eligible to participate in the early retirement program. Under this plan, employees will have the option of leaving Swisscom and be paid through December 31, 2000, the early leave program, or leaving their current job and entering the outplacement program. At December 31, 1999, 315 employees had left Swisscom under the early leave program. While in the outplacement program, which can be for up to three years, the employees will be trained for new jobs and will receive assistance in finding employment outside of Swisscom. However, the employees remain eligible for other jobs within Swisscom. There will be 934 employees that participate in this program of which over half had entered the program by the end of the year and 159 employees had left Swisscom by the end of the year. Swisscom has identified the remaining employees, and they will enter the program in early 2000. The amount of the expense represents the cost that are expected to be incurred relating only to those employees that are not expected to continue working with Swisscom.

Notes to the consolidated financial statements

1997 Restructuring

A plan to outsource substantially all cleaning and property maintenance staff, consisting of 1,620 part-time employees was approved in 1997, resulting in a restructuring charge of CHF 120 million. During 1998, Swisscom revised its estimate of the total costs of the outsourcing program downwards by CHF 50 million. The revised estimate is less than that recorded as part of the 1997 restructuring due to employees leaving Swisscom prior to eligibility for the program as well as additional employees who voluntarily opted to forgo outsourcing employment in order to receive severance payments. Severance payments to be paid to these employees are less than the total costs anticipated under the terms of the outsourcing program. During 1999, Swisscom paid CHF 35 million and revised its estimate by CHF 7 million.

Miscellaneous restructuring charges of CHF 84 million recorded in 1997 reflect various measures taken in 1997 related to discontinuing selected activities and to streamlining certain facilities and operations, the majority of which relates to penalty payments on the early termination of contracts.

An analysis of the activity of the 1999 and 1997 restructuring charges excluding write-down of long lived assets and the voluntary early retirement program, which is part of the pension liability, follows:

CHF in millions	Early leave & Outplacement	Outsourcing	Miscellaneous	Total
Liability at December 31, 1997	–	120	84	204
Cash payments	–	–	(49)	(49)
Other utilization of provision	–	–	(14)	(14)
Revision included in income	–	(50)	–	(50)
Liability at December 31, 1998	–	70	21	91
Restructuring charges	109	–	–	109
Cash payments	(51)	(35)	(9)	(95)
Revision included in income	–	(7)	–	(7)
Liability at December 31, 1999	58	28	12	98

	CHF in millions	1998	1999
11 Financial expense			
	Interest on debt	315	242
	Loss on early extinguishment of debt	81	7
	Miscellaneous	11	10
	Total financial expense	407	259

	CHF in millions	1998	1999
12 Financial income			
	Interest	45	45
	Dividends	8	9
	Gain on sale of securities	40	–
	Reversal of allowance on investments	–	24
	Gain on sale of investments	–	34
	Gain on crossborder lease transactions. See note 28.	–	108
	Total financial income	93	220

The reversal of allowance on investments and the gain on sale of investments relates to Swisscom's interest in Infonet. See note 23.

13 Income tax expense

CHF in millions	1998	1999
Current income tax expense	409	317
Deferred income tax (benefit) expense	(90)	218
Total income tax expense	319	535

Current income taxes are calculated based on taxable income of the period and are accrued in the same period as the revenues and expenses to which they relate. Total current income tax expense in 1998 includes CHF 37 million of income tax benefit which was recorded directly to equity. See note 29. Current income tax expense for 1998 and 1999 excludes the tax benefit of CHF 121 million and tax expense of CHF 50 million, respectively related to discontinuing operations. As a result, net current tax expense was CHF 251 million and CHF 367 million in 1998 and 1999, respectively.

Deferred income tax expense in 1999 includes CHF 113 million tax benefit recorded directly to equity. See note 8. As a result deferred income tax expense was CHF 105 million.

The income tax expense on income before income taxes, equity in net (loss) income of affiliated companies and minority interest is reconciled to the reported income tax expense as follows:

CHF in millions	1998	1999
Income before income taxes, equity in net (loss) income of affiliated companies and minority interest	2 587	2 449
Weighted average statutory tax rate	25%	25%
Income tax expense at the weighted average statutory tax rate	647	612
(Reduction) increase in income taxes resulting from:		
Deferred tax asset recorded on incorporation ¹⁾	(230)	-
Amortization of goodwill	-	22
Swisscom AG tax benefit for loss on investments in affiliated companies	(52)	(16)
Income of subsidiary not taxable	(3)	(18)
Other	(43)	(65)
Income tax expense as reported	319	535

¹⁾ Upon incorporation on January 1, 1998, Swisscom became subject to income taxes. At this date, the tax basis of accrued pension cost was lower than the IAS basis in the amount of CHF 920 million. This difference resulted in a deferred tax asset of CHF 230 million which has been recorded as a deferred income tax credit during 1998.

Notes to the consolidated financial statements

The weighted average statutory tax rate includes both Federal and Cantonal taxes. Taxable income in Switzerland is allocated among the 26 cantons, each canton has a different tax rate. The weighted average statutory tax rate is based on the relationship between the income earned in the canton and the corresponding tax rate for that canton.

The tax effects of temporary differences that give rise to deferred tax assets and liabilities at December 31, 1998 and 1999 were as follows:

CHF in millions	1998	1999
Assets associated with:		
Accrued pension cost	184	330
Other	18	58
Total deferred tax assets	202	388
Liabilities associated with:		
Property, plant and equipment	(112)	(292)
Trade accounts receivable and other current assets	-	(34)
Other long-term liabilities	-	(27)
Total deferred tax liabilities	(112)	(353)
Net deferred tax assets	90	35
Deferred tax assets	100	58
Deferred tax liabilities	(10)	(23)

14 Equity in net (loss) income of affiliated companies

CHF in millions	1998	1999
Equity in net (loss) income of affiliated companies	(208)	325
Amortization of goodwill	(4)	(24)
Total equity in net (loss) income of affiliated companies	(212)	301

See note 21 for additional information.

15 Earnings per share

Income available to shareholders used in calculating both basic and diluted earnings per share is Swisscom's reported net income for each year. The weighted-average number of shares outstanding used in the calculation are as follows:

	1998	1999
Basic	67 887 500	73 550 000
Adjustment for share appreciation rights	7 395	83 245
Diluted	67 894 895	73 633 245

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

	CHF in millions	1998	1999
16 Cash and cash equivalents			
	Cash deposits	309	534
	Term deposits	1 450	677
	Total cash and cash equivalents	1 759	1 211

17 Securities available for sale

Securities available for sale consist of listed shares with an original cost of CHF 65 million. Unrealized gains in the amount of CHF 1 million in 1998, were recorded as an unrealized market value adjustment on securities within shareholders' equity. Realized gains from sales during 1998 totaled CHF 39 million and were recorded as changes in unrealized market value adjustment on securities. There were no realized gains in 1999.

	CHF in millions	1998	1999
18 Trade accounts receivable			
	Trade accounts receivable	2 435	2 840
	Trade accounts receivable from affiliated companies	57	58
	Total trade accounts receivable, gross	2 492	2 898
	Allowance for bad debts	(134)	(250)
	Total trade accounts receivable, net	2 358	2 648

	CHF in millions	1998	1999
19 Inventories			
	Raw material and supplies	72	83
	Customer premises equipment for resale	160	172
	Total inventories, gross	232	255
	Allowance for obsolete and slow-moving items	(24)	(15)
	Total inventories, net	208	240

Notes to the consolidated financial statements

20 Property, plant and equipment

CHF in millions	Land and buildings	Technical equipment	Vehicles and other equipment	Total
At cost:				
Balance at December 31, 1997	5 897	22 534	2 112	30 543
Acquisition of subsidiaries	5	53	6	64
Additions	118	974	213	1 305
Disposals	(16)	(1 079)	(205)	(1 300)
Reclassifications	–	22	(22)	–
Balance at December 31, 1998	6 004	22 504	2 104	30 612
Acquisition of subsidiaries	–	1	39	40
Additions	145	1 008	315	1 468
Disposals	(19)	(1 216)	(432)	(1 667)
Reclassifications ¹⁾	30	(78)	(8)	(56)
Translation adjustments	–	2	–	2
Balance at December 31, 1999	6 160	22 221	2 018	30 399
Accumulated depreciation:				
Balance at December 31, 1997	3 521	14 187	1 382	19 090
Additions	75	1 302	226	1 603
Disposals	(9)	(995)	(178)	(1 182)
Balance at December 31, 1998	3 587	14 494	1 430	19 511
Additions	86	1 292	234	1 612
Disposals	(7)	(1 052)	(388)	(1 447)
Reclassifications	32	(32)	–	–
Balance at December 31, 1999	3 698	14 702	1 276	19 676
Net book value:				
At December 31, 1997	2 376	8 347	730	11 453
At December 31, 1998	2 417	8 010	674	11 101
At December 31, 1999	2 462	7 519	742	10 723

¹⁾ Reclassifications relate mainly to the change in accounting treatment in respect of UTA. See note 22.

Included in 1998 additions to accumulated depreciation is CHF 33 million of asset write-downs due to impairment of cable television and paging assets. This write-down reduces the net book value of these assets to their net recoverable amount.

Included within property, plant and equipment are the following:

CHF in millions	1998	1999
Assets under construction	579	433
Technical equipment acquired under finance leases:		
At cost	566	567
Accumulated amortization	(94)	(158)
Net book value	472	409

21 Investments in affiliated companies

CHF in millions	Equity in affiliated companies	Goodwill from investments in affiliated companies	Total investments in affiliated companies
Net book value:			
At December 31, 1997	935	237	1 172
Additions	90	1	91
Dividends received	(4)	–	(4)
Equity in net result	(208)	(4)	(212)
Discontinued operations	(130)	(229)	(359)
Translation adjustments	61	–	61
At December 31, 1998	744	5	749
Reclassifications	34	87	121
Additions	105	–	105
Dividends received	(513)	–	(513)
Equity in net result	325	(24)	301
Disposals	(21)	–	(21)
Translation adjustments	(29)	–	(29)
At December 31, 1999	645	68	713

The gross amount of goodwill is CHF 53 million at December 31, 1998 and CHF 150 million at December 31, 1999.

Reclassifications of CHF 121 million relate to UTA Telekom AG. As discussed in note 22 management concluded that its investment in UTA Telekom would be more appropriately accounted for under the equity method. The CHF 121 million represents the investment of CHF 150 million plus Swisscom's equity in net loss of CHF 29 million.

During 1999, AUCS became a wholly owned subsidiary of Unisource when AT&T sold back its 40% investment in AUCS for nominal consideration and paid AUCS EUR 211 million (CHF 338 million) in the form of a capital contribution. Swisscom's pro rata share, CHF 113 million, has been recorded as a direct addition to equity in the statement of changes in shareholders' equity.

Unisource and its shareholders', including Swisscom, entered into an agreement in which they effectively sold much of the operations of the AUCS business to Infonet, who will manage the business for a three-year period. At the end of three years, it is expected that the AUCS business will be liquidated. Under the terms of various agreements, Unisource is required to provide certain services to Infonet during this three-year period. In addition, Unisource and its shareholders are responsible for any losses that will be incurred by AUCS and are required to pay Infonet a bonus if the losses are below a specified level. Under these terms, Swisscom's share of the minimum loss that would be paid by Unisource is CHF 157 million. Swisscom's share of the consideration for this transaction was the purchase from Infonet of 15.9 million of its Class B shares shortly before its initial public offering at a price below fair value. Based on the offering price, these shares of Infonet were worth CHF 530 million and Swisscom paid CHF 21 million. The difference of CHF 509 million between the amount paid by Swisscom and the fair value is accounted for as a dividend from Unisource. Swisscom's share of the potential gain on this transaction of CHF 352 million, representing the gain on the shares purchased of CHF 509 million less the minimum future losses of AUCS of CHF 157 million that have been guaranteed, will be amortized into income over the three-year period of the service and other agreements. Swisscom's investment in Infonet is included within other financial assets. See note 23.

Unisource also entered into an agreement to sell its shares in D Plus to MobilCom, a public company in Germany for a cash and share consideration. Swisscom expects to record a gain of approximately CHF 200 million when the transaction closes in early 2000.

Notes to the consolidated financial statements

During 1999, Swisscom and the other two shareholders' of Cablecom entered into an agreement to sell the assets and liabilities of the Cablecom group to NTL Incorporated, a public company in the United States, for USD 3,445 million (CHF 5,400 million). Swisscom expects to record a gain of approximately CHF 1,350 million when the transaction closes in the first half of 2000.

The following schedule provides selected aggregated key data of Swisscom's proportionate interest in joint ventures including Unisource, TelSource, Cablecom, Tesion, Swisscom Directories, PubliDirect and UTA. See note 22. Other equity investments are insignificant.

CHF in millions	1998	1999
Statement of operations		
Net revenues	934	872
Total operating expenses	(1 128)	(1 055)
Operating loss	(194)	(183)
Net (loss) income	(208)	327
Balance sheet		
Current assets	472	945
Fixed assets	1 347	1 391
Current liabilities	570	692
Long-term liabilities	527	1 004
Shareholders' equity	722	640

22 Goodwill and other intangible assets

CHF in millions	Goodwill	Other intangible assets	Total
At cost:			
Balance at December 31, 1997	12	–	12
Acquisition of subsidiaries	106	20	126
Additions	–	2	2
Balance at December 31, 1998	118	22	140
Acquisition of subsidiaries	3 367	42	3 409
Additions	–	16	16
Reclassifications	(106)	(20)	(126)
Translation adjustments	11	–	11
Balance at December 31, 1999	3 390	60	3 450
Accumulated amortization:			
Balance at December 31, 1997	–	–	–
Acquisition of subsidiaries	–	4	4
Amortization	9	2	11
Balance at December 31, 1998	9	6	15
Acquisition of subsidiaries	–	16	16
Amortization	87	4	91
Reclassifications	(7)	(4)	(11)
Balance at December 31, 1999	89	22	111
Net book value:			
At December 31, 1997	12	–	12
At December 31, 1998	109	16	125
At December 31, 1999	3 301	38	3 339

During 1998 Swisscom acquired a 50% plus one share interest in UTA Telekom AG (UTA), a telecommunications service provider in Austria, in exchange for a capital contribution of ATS 1,242 million (CHF 150 million). The excess purchase price of UTA over the fair value of net assets acquired totaling CHF 106 million, has been recorded as an increase in intangible assets during 1998. During 1999, Swisscom reevaluated the arrangement with the other shareholder, and concluded that it did not have sufficient control to support consolidation. Accordingly, the investment will be accounted for under the equity method. See note 21. The effect of consolidation in 1998 was immaterial and therefore prior year amounts have not been revised.

The acquisition of subsidiaries for 1999 includes CHF 3,360 million of goodwill relating to debitel.

Effective October 1, 1999, Swisscom acquired for cash 74.2% of the voting and outstanding shares of debitel Aktiengesellschaft ("debitel"). debitel is a network independent telecommunications company that provides mobile communications, fixed line and internet services. The primary operations are in Germany with subsidiaries in the Netherlands, France, Belgium, Denmark and Slovenia. Swisscom paid CHF 51 (EUR 32) per share and the total purchase price, including CHF 13 million of direct acquisition costs, was CHF 3,394 million. The combination was accounted for as an acquisition and Swisscom recognized CHF 3,360 million in goodwill that will be amortized over ten years using the straight-line method. Management believes that based on debitel's market share goodwill has at least a ten-year life.

Notes to the consolidated financial statements

Two of the shareholders have an option to put 20% of the outstanding shares to Swisscom representing 17,862,761 shares for a price of CHF 54.4 (EUR 34) from November 15, 2000 to January 2, 2001. Swisscom has a call option to purchase these shares at the same price. Approximately 6% of the shares are publicly traded. Swisscom believes the fair value of the shares exceeds the value of the put option. At March 17, 2000 the market price was CHF 79.2 (EUR 49.5). If the options are exercised, Swisscom will pay approximately CHF 970 million and record the additional shares as an acquisition on that date.

The fair value of the assets acquired and liabilities assumed were as follows:

CHF in millions

Cash and cash equivalents	98
Trade accounts receivable	287
Inventories	25
Fixed assets	40
Other assets	214
Goodwill	3 360
Short-term debt	(37)
Trade accounts payable	(355)
Long-term debt	(36)
Other liabilities	(202)
Total purchase price, cash paid	3 394
Less cash acquired	(98)
Cash flow on acquisition, net of cash acquired	3 296

Acquisitions of other subsidiaries are insignificant.

CHF in millions

23 Other financial assets

	1998	1999
Infonet, net of allowance of CHF 24 million and CHF 0 million	22	566
Other investments, net of allowance of CHF 63 million and CHF 76 million	60	53
Loans receivable	108	108
Loans receivable from affiliated companies	96	233
Other financial assets	9	152
Total other financial assets	295	1 112

The increase in the carrying value of Infonet shares relates to the transaction described in note 21.

24 Debt

Short-term debt

CHF in millions	1998	1999
Short-term loan	–	1 700
Current portion of long-term debt	500	1 200
Employee savings deposits	724	675
Short-term loans payable to affiliated companies	–	401
Current portion of finance lease obligation. See note 28.	39	24
Other	1	49
Total short-term debt	1 264	4 049

The short-term loan was part of the financing measures taken for the acquisition of debitel. The interest rate payable on this debt is 1.81%. This loan is to be repaid in the first half of 2000.

Employee savings deposits represent short-term deposits held by Swisscom employees. The Swiss Post administrates the accounts. The interest rate is 2.25%.

A loan amounting to EUR 250 million was granted to Swisscom from one of its affiliated companies at the interest rate of 3.5%.

Long-term debt

Long-term debt consists primarily of unsecured fixed interest rate loans, denominated in Swiss francs, granted by the Swiss Post. At December 31, 1999, maturities range from 2000 to 2003 as follows:

CHF in millions	1998	1999
Within one year	500	1 200
Within 1–2 years	1 200	1 250
Within 2–3 years	1 250	1 000
Within 3–4 years	1 000	750
Within 4–5 years	750	–
Total Swiss Post debt	4 700	4 200
Current portion of Swiss Post debt	(500)	(1 200)
Total long-term Swiss Post debt	4 200	3 000
Note payable to minority shareholder	45	–
Other	–	73
Total long-term debt	4 245	3 073

Interest rates on the Swiss Post debt range from approximately 3.5% to 5.5%.

Notes to the consolidated financial statements

	CHF in millions	1998	1999
25 Other current liabilities			
	Accrued liabilities – current portion. See note 26.	121	264
	Interest payable	96	80
	Reserve for discontinuing operations. See note 35.	132	11
	VAT payable	96	88
	Social security payable	63	38
	Accrual for overtime and unused vacation	95	80
	Accrued expenses	708	942
	Revenue received in advance	237	237
	Total other current liabilities	1 548	1 740

	CHF in millions	1998	1999
26 Accrued liabilities			
	Restructuring charges. See note 10.	91	98
	Other accrued liabilities	726	673
	Total accrued liabilities including its current portion	817	771
	Less current portion	(121)	(264)
	Total accrued liabilities	696	507

Included within other accrued liabilities at December 31, 1998 and 1999, is CHF 316 million for dismantlement of analog transmitter stations and restoration of property owned by third parties on which the transmitters are situated.

	CHF in millions	1998	1999
27 Other long-term liabilities			
	Revenue received in advance	130	66
	Deposits received from customers	98	89
	Miscellaneous	45	48
	Total other long-term liabilities	273	203

28 Finance lease obligation
Swisscom sold in 1998 certain technical equipment in separate transactions for proceeds of CHF 118 million. Swisscom concurrently entered into agreements to lease the equipment back under finance leases. See notes 20 and 30.

During 1999, Swisscom entered into three crossborder lease arrangements with certain foreign investors. As a result of these arrangements, Swisscom received a fee of CHF 108 million, net of expenses. Under the terms of the various agreements, Swisscom incurred CHF 1,855 million of debt and received CHF 1,855 million, plus its fee. Swisscom defeased CHF 1,728 million of the debt by irrevocably placing the equivalent amount of securities that were backed by a government guarantee into a trust. Accordingly, both the assets and liabilities have been removed from the financial statements and no gain or loss was recognized. The remaining CHF 127 million in assets and liabilities that was not defeased is included in the consolidated balance sheet. Swisscom is not responsible for any performance under these arrangements, other than that which would be done in the normal course of business, and accordingly, has recognized the fee as income in 1999.

Payments for finance leases amounted to CHF 39 million (amortization and interest) in 1999. Future minimum lease payments resulting from non-cancellable finance lease contracts are due as follows:

CHF in millions	1998	1999
Within one year	39	40
Within 1–2 years	40	40
Within 2–3 years	40	42
Within 3–4 years	41	68
Within 4–5 years	67	66
After 5 years	430	612
Total future payment commitments	657	868
Less future interest charges	(101)	(207)
Total finance lease obligation including its current portion (net present value)	556	661
Less current portion. See note 24.	(39)	(24)
Long-term finance lease obligation	517	637

29 Shareholders' equity

Share capital

At December 31, 1997, the Confederation advanced a loan to Swisscom of CHF 3,500 million of which CHF 3,200 million was converted to equity in connection with the initial capitalization of Swisscom AG as a stock corporation. At January 1, 1998, Swisscom converted CHF 1,650 million of this amount into share capital. This conversion was based upon 33,000,000 shares with a par value of CHF 50 each. Effective August 26, 1998, the shareholder approved a 2 to 1 stock split that increased the number of shares to 66,000,000 with a per share par value of CHF 25. All share amounts reflect the stock split. At a shareholder's meeting on September 30, 1998, it was approved to issue 7,550,000 new, fully paid-in registered shares with a par value of CHF 25 each. These new shares have full dividend rights for the business year 1998 and were subsequently sold during the initial public offering.

In October 1998 Swisscom completed an initial public offering of 25,374,750 shares at an initial offering price of CHF 340, with certain discounts offered to employees and Swiss retail purchasers. Of the total shares sold, 7,550,000 were sold by Swisscom and 17,824,750 by the Confederation. Swisscom did not receive any of the proceeds from the sale of shares sold by the Confederation. The net proceeds to Swisscom from the offering, after deducting applicable underwriting commissions, employee and other discounts and offering expenses, were CHF 2,462 million. Net offering costs totaled CHF 105 million, net of reimbursement from the Confederation of CHF 21 million and income tax benefit of CHF 29 million. These net proceeds were used by Swisscom to repay debt and for general corporate purposes.

Shares authorized, issued and outstanding at December 31, 1998 and December 31, 1999 total 73,550,000.

Purchased call options

During 1998 Swisscom purchased call options from an underwriter of the public offering in order to fix its maximum liability under the leveraged share ownership plans. This instrument gives Swisscom the option to call its own shares, in a quantity equal to the total appreciation rights share equivalent, at the initial public offering price. The purchase price of this option, CHF 25 million, net of CHF 8 million income tax benefit, has been recorded as a reduction of shareholders' equity in the current period.

Notes to the consolidated financial statements

30 Financial instruments

Dividends

The amount available for dividend distribution is based on the parent company's shareholders' equity determined in accordance with the legal provisions of the Swiss Code of Obligations. At December 31, 1999 CHF 3,894 million is available for distribution. The proposed dividend for 1999 amounts to CHF 15 a share.

Derivative financial instruments

Swisscom has entered into currency swaps and foreign exchange contracts as hedges of U.S. dollar denominated leases. The total lease obligation at December 31, 1999, amounted to CHF 661 million (CHF 556 million at December 31, 1998). It is Swisscom's policy to hedge all currency exposure on such liabilities with foreign currency derivative instruments such as swaps and foreign exchange contracts. The terms and conditions of the swaps and foreign exchange contracts match the terms and conditions of the underlying finance lease obligations disclosed in note 28. Accordingly all foreign exchange gains and losses on the lease obligations are completely offset by foreign exchange gains and losses on the financial instruments. Swisscom does not undertake speculative trading using derivative instruments.

Swisscom has a net foreign exchange exposure, in particular on international telephone settlements which are expected to be settled within one year. Swisscom's exposure to this foreign exchange risk is partially hedged through foreign exchange contracts. At December 31, 1999, foreign exchange contracts were outstanding to purchase EUR 250 million (CHF 401 million) and USD 60 million (CHF 94 million) in the first quarter of 2000. The difference between carrying value and fair value of these financial instruments is not significant.

Liquidity risk and credit risk

Liquidity risk includes the risk that, as a result of liquidity requirement in the future, Swisscom will be forced to sell financial assets or derivative positions at a value which is below their underlying worth or may be unable to exit these positions at all, or Swisscom will have insufficient funds to settle a transaction on the due date. To help counter these risks Swisscom has standby facilities and has a liquidity policy which requires a minimum liquidity level to be maintained.

Credit risk includes the risk that a counterparty will fail to discharge their obligation under a financial instrument and cause Swisscom to incur a financial loss. To help counter this risk Swisscom ensures it does not have any significant exposure relative to approved counterparty limits, and has a policy which establishes counterparty limits. Swisscom does not have any significant exposure to any individual customer or counterparty nor does it have any major concentration of credit risk related to any financial instruments.

Interest rate risk

Swisscom is subject to interest rate risks due to fluctuations in market rates. Substantially all of Swisscom's long-term debt is in the form of held-to-maturity fixed-rate Swiss franc loans with original maturities of up to 4 years. Accordingly, movements in interest rates could lead to fluctuations in the fair-value of such debt instruments but will neither impact net income or future cash flows.

Interest rates for short-term debt, are on a floating rate basis and are reset to market conditions periodically.

Fair value of financial instruments

The following table presents the carrying amounts and fair values of Swisscom's financial instruments outstanding at December 31, 1998 and 1999. The carrying amounts in the table are included in the balance sheet under the indicated captions. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidated sale.

CHF in millions	Carrying amount 1998	Fair value 1998	Carrying amount 1999	Fair value 1999
Financial assets				
Cash and cash equivalents	1 759	1 759	1 211	1 211
Securities available for sale	28	28	65	65
Trade and other receivables	2 449	2 449	3 389	3 389
Other financial assets	213	213	907	3 897
Financial liabilities				
Short-term debt ¹⁾	1 225	1 250	4 025	4 057
Trade accounts payable	925	925	1 265	1 265
Other current liabilities	1 536	1 536	1 503	1 503
Long-term debt ¹⁾	4 245	4 586	3 073	3 209
Finance lease obligation	556	567	661	655
Accrued liabilities and accrued pension cost	2 547	2 547	2 755	2 755
Other long-term liabilities	98	98	89	89

¹⁾ The difference between carrying value and net fair value relates principally to interest rate movements.

Estimation of fair values

Accounts receivable, accounts payable and other liabilities

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

Cash and cash equivalents, securities available for sale, investments and loans receivable

The carrying amounts of cash and loans receivable approximate fair value. The fair value of securities available for sale is based on quoted market values. Except for Infonet, which is a listed company, the fair value of investments were not practically determinable because they are not publicly traded or no liquid markets exist.

Finance lease obligation, accrued liabilities and accrued pension cost

The fair value of finance lease obligations is estimated using the expected future payments discounted at market rates. The carrying value of accrued liabilities and accrued pension cost approximate their fair value.

Debt

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

31 Commitments and contingencies

Contractual commitments for future capital expenditures at December 31, 1999, are estimated at CHF 61 million and become due in 2000.

At December 31, 1998 and 1999, Swisscom has guaranteed certain liabilities of affiliated companies and third parties totalling CHF 222 million and CHF 574 million, respectively. In addition, Swisscom has pledged shares in a long-term investment with a historic cost of CHF 10 million as security for a loan taken by the investee.

Notes to the consolidated financial statements

32 Segment reporting

Voice consists of access, national calling, outgoing international calling, voice value-added and information services as well as customer premises equipment and system and customer service. Mobile telecommunication operations consist of providing mobile telephone service including fees for the use of the network and sales of mobile handsets. Data and multimedia consist of managed network services, corporate communications solutions and multimedia services. Carrier Services operations consist of providing network services to other national and international carriers that use Swisscom's network for calls terminating in or transiting through the network as well as mandated television and radio activities. debitel is a mobile service provider operating primarily in Germany. The financial results of Swisscom's segments are presented based upon internal management reporting.

1998 CHF in millions	Voice	Mobile	Data & Multi- media	Carrier Services	debitel	Other	Total
Net revenues from external customers	6 589	1 791	901	813	–	367	10 461
Intersegment net revenues	153	391	248	835	–	–	1 627
Net revenues	6 742	2 182	1 149	1 648	–	367	12 088
Segment expenses	(5 050)	(1 234)	(873)	(1 294)	–	(281)	(8 732)
Operating income before amortization of goodwill	1 692	948	276	354	–	86	3 356
Amortization of goodwill	–	–	–	–	–	(10)	(10)
Segment operating income	1 692	948	276	354	–	76	3 346
Restructuring charges							50
Corporate expenses not allocated							(495)
Operating income							2 901
Financial expense							(407)
Financial income							93
Income before income taxes, equity in net loss of affiliated companies and minority interest							2 587
Income tax expense							(319)
Income before equity in net loss of affiliated companies and minority interest							2 268
Equity in net loss of affiliated companies	–	–	5	–	–	(217)	(212)
Minority interest in income (loss) of consolidated subsidiaries							18
Net income from continuing operations							2 074

1999 CHF in millions	Voice	Mobile	Data & Multi- media	Carrier Services	debitel	Other	Total
Net revenues from external customers	5 703	2 344	913	950	922	328	11 160
Intersegment net revenues	182	445	325	923	–	–	1 875
Net revenues	5 885	2 789	1 238	1 873	922	328	13 035
Segment expenses	(4 755)	(1 571)	(1 080)	(1 474)	(892)	(122)	(9 894)
Operating income before amortization of goodwill	1 130	1 218	158	399	30	206	3 141
Amortization of goodwill	–	–	(3)	–	(84)	–	(87)
Segment operating income	1 130	1 218	155	399	(54)	206	3 054
Restructuring charges							(249)
Corporate expenses not allocated							(317)
Operating income							2 488
Financial expense							(259)
Financial income							220
Income before income taxes, equity in net income of affiliated companies and minority interest							2 449
Income tax expense							(535)
Income before equity in net income of affiliated companies and minority interest							1 914
Equity in net income of affiliated companies	–	–	23	–	–	278	301
Minority interest in income of consolidated subsidiaries							(7)
Net income from continuing operations							2 208

Prior to the acquisition of debitel in 1999, Swisscom's business was conducted predominantly in Switzerland. Rest of Europe includes primarily debitel, which operates mainly in Germany.

CHF in millions	Net revenues	Carrying amount of assets	Additions to property plant and equipment and intangible assets
Switzerland	10 146	16 565	1 455
Rest of Europe	1 014	4 353	29
Total	11 160	20 918	1 484

Revenues on intersegment sales are determined on the same basis as transactions with third parties. Costs are allocated among segment based on a variety of factors as determined by management to reflect an appropriate amount of usage. Swisscom's reportable segments, with the exception of Mobile and debitel utilize common fixed assets for delivery of service. No distinction is made between the assets and liabilities of these segments for accounting or management review purposes. Accordingly, no disclosure of assets, liabilities, depreciation expense or capital expenditures is provided.

Notes to the consolidated financial statements

33 Executive Board and Board of Directors

Remuneration of members of the Executive Board and the Board of Directors in 1998 and 1999 amounted to CHF 6 million, for each year.

34 Significant subsidiaries and affiliated companies

Company name	Location, country	Interest in percent	Consolidation method
Switzerland:			
All Wireless AG	Berne, Switzerland	51	full
Billag AG	Berne, Switzerland	100	full
Cablecom Holding AG ¹⁾	Frauenfeld, Switzerland	32	equity
Comfone AG	Muri (Berne), Switzerland	100	full
Infonet (Schweiz) AG	Berne, Switzerland	90	full
PubliDirect Holding AG ¹⁾	Zurich, Switzerland	49	equity
Swiss Clearline AG	Muri (Berne), Switzerland	100	full
Swisscom Directories AG ¹⁾	Berne, Switzerland	51	equity
Swisscom Immobilien AG	Berne, Switzerland	100	full
Swisscom Immobilien Invest AG	Berne, Switzerland	100	full
Swiss Key AG	Zurich, Switzerland	47.5	equity
Other countries:			
debitel group ⁵⁾ :	Stuttgart, Germany	74.2	full
Cellway/Martin Dawes Telecommunications (Nederland) B.V.	Amersfoort, Netherlands	100	full
Dansk GSM service A/S	Padborg, Denmark	100	equity
debitel Belgium S.A.	Brussels, Belgium	48	full
debitel Danmark A/S	Albertslund, Denmark	67	full
debitel France S.A.	Chaville, France	100	full
debitel Nederland B.V.	Hoofddorp, Netherlands	60	full
debitel Network Services GmbH	Stuttgart, Germany	100	full
debitel Shop B.V.	Amersfoort, Netherlands	100	full
debitel telekomunikacije d.d.	Ljubljana, Slovenia	52	full
debitel Vertriebs GmbH	Stuttgart, Germany	100	full
FreeCom GmbH	Trier, Germany	49	equity
Primus-Online Berlin-Brandenburg GmbH & Co. KG	Berlin, Germany	51	equity
ESTEL S.A. ¹⁾	Strasbourg, France	50	equity
Sterling Cellular Limited ^{1) 2)}	New Delhi, India	32.5	–
Swisscom (Belgium) N.V.	Brussels, Belgium	100	full
Swisscom Carrier Services S.p.A.	Milan, Italy	100	full
Swisscom (Deutschland) GmbH	Frankfurt, Germany	100	full
Swisscom Deutschland Holding GmbH	Frankfurt, Germany	100	full
Swisscom (France) SA	Paris, France	100	full
Swisscom Jersey Ltd.	St. Helier, Jersey	100	full
Swisscom (Netherlands) B.V.	Amsterdam, Netherlands	100	full
Swisscom North America, Inc.	Washington D.C., USA	100	full
Swisscom Re AG	Vaduz, Principality of Liechtenstein	100	full
Swisscom S.p.A.	Milan, Italy	100	full
Swisscom (UK) Ltd.	London, Great Britain	100	full
Telecom FL AG	Vaduz, Principality of Liechtenstein	100	full
TelSource N.V. ^{1) 3)}	The Hague, Netherlands	49	equity
tesion, GmbH & Co. KG ¹⁾	Stuttgart, Germany	50	equity
Unisource N.V. ¹⁾	Hoofddorp, Netherlands	33.3	equity
UTA Telekom AG ^{1) 4)}	Vienna, Austria	50.0	equity

¹⁾ Joint venture.

²⁾ Held through Mobilvest Ltd., a wholly owned subsidiary. See note 35.

³⁾ Holding the interest in Cesky Telecom. See note 21.

⁴⁾ Held through Swisscom Telekommunikation Holding GmbH, a wholly owned subsidiary.

⁵⁾ Held through debitel AG, Stuttgart/Germany.

35 Discontinuing operations

In March 1999, the Board of Directors announced a plan to dispose of its operations in India (Sterling Cellular Limited) and Malaysia (DiGi Swisscom Berhad) due to a refocusing of the Company's international strategy of the Heart of Europe and continued losses of these investments. The loss in 1998 of CHF 519 million (net of CHF 121 million tax benefit) includes a write-off for costs expected to be incurred to exit these businesses, and the realization of the translation adjustment.

During 1999, Swisscom sold its investment in DiGi Swisscom Berhad for cash of CHF 178 million. The gain of CHF 183 million, net of income tax provision of CHF 50 million, includes reversal of provisions that were not necessary.

In December 1999, Swisscom entered into an agreement to sell its investment in Sterling Cellular Limited. The agreement closed in January 2000 and Swisscom received CHF 104 million in cash. The gain of CHF 68 million, net of income tax of CHF 19 million includes the reversal of provisions that were not necessary. The gain was recorded in January 2000.

Report of Statutory Auditors

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

As statutory auditors, we have audited the accounting records and the financial statements (income statement, balance sheet and notes to the financial statements on pages 49 to 51 of Swisscom AG) for the year ended December 31, 1999.

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

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

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

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

PricewaterhouseCoopers AG

Peter Wittwer Julie Fitzgerald

Berne, March 21, 2000

Swisscom AG

Income statement

	Year ended December 31	
CHF in millions	1998	1999
Net revenues	10 404	10 096
Capitalized cost	133	77
Gain on disposal of fixed assets	29	7
Total	10 566	10 180
Goods and services purchased	1 576	1 616
Personnel expenses	2 613	2 007
Other operating expenses	2 290	2 196
Depreciation and amortization	2 580	2 422
Restructuring charges	(50)	249
Total operating expenses	9 009	8 490
Operating income	1 557	1 690
Financial expense	(443)	(392)
Financial income	141	891
Income before income taxes	1 255	2 189
Income tax expense	(244)	(361)
Net income	1 011	1 828

Swisscom AG

Balance sheet

CHF in millions	Note	At December 31	
		1998	1999
Assets			
Current assets			
Cash and cash equivalents		1 587	1 012
Securities available for sale		–	1
Trade accounts receivable		2 447	2 258
Inventories		202	125
Other current assets		191	542
Total current assets		4 427	3 938
Non-current assets			
Property, plant and equipment	4	8 191	7 062
Investments	6	1 495	5 384
Other non-current assets		2 040	2 414
Total non-current assets		11 726	14 860
Total assets		16 153	18 798
Liabilities and shareholders' equity			
Current liabilities			
Short-term debt		1 266	4 007
Trade accounts payable		858	843
Other current liabilities		1 710	1 923
Total current liabilities		3 834	6 773
Long-term liabilities			
Long-term debt		4 772	3 576
Finance lease obligation	5	517	637
Accrued liabilities		1 027	632
Other long-term liabilities		441	528
Total long-term liabilities		6 757	5 373
Total liabilities		10 591	12 146
Shareholders' equity			
Share capital		1 839	1 839
General reserves		2 712	2 712
Retained earnings	7	1 011	2 101
Total shareholders' equity	2	5 562	6 652
Total liabilities and shareholders' equity		16 153	18 798

Notes to the financial statements

- 1 General** The financial statements of Swisscom AG, the parent company, comply with the legal provisions of the Swiss Code of Obligations.
- 2 Shareholders' equity** See note 29 of the consolidated financial statements.
- 3 Contingent liabilities** Total guarantees and pledged securities in favor of third parties at December 31, 1998 and 1999, amounted to CHF 232 million and CHF 574 million respectively.
- 4 Fire insurance values of property, plant and equipment** The fire insurance values of property, plant and equipment are generally based on replacement or fair values of such assets.
- 5 Leases** Assets acquired under leasing agreements which effectively transfer substantially all the risks and rewards incidental to ownership from the lessor to the lessee are classified as finance leases. Further information is included in note 28 of the consolidated financial statements.
- 6 Investments** See notes 21 and 23 of the consolidated financial statements. Significant balances and transactions with investments and joint ventures are disclosed separately in the consolidated financial statements as items with affiliated companies.
- 7 Revaluation of investments** During 1999 certain investments have been sold at a price above their bookvalue. The difference of CHF 71 million between the fair value of these investments at the date of incorporation of Swisscom AG and the carrying value of such investments at the date of sale was recorded directly through retained earnings.
- 8 Significant shareholders and transfer restrictions for registered shares** On December 31, 1999, the Swiss Confederation (the "Confederation") as majority shareholder, held 65.5% of the shares of Swisscom AG. The Telecommunications Enterprise Act of 1997 ("Telekommunikationsunternehmungsgesetz", the TUG") provides that the Confederation must hold a majority of the capital and voting rights of Swisscom. In addition, Chase Nominees Ltd., London, registered in the share register as shareholder, held 5.8% of the shares.
- According to the Articles of Incorporation, the Board of Directors may refuse the approval of an acquirer of shares as a shareholder or usufructuary with voting rights, if the holding of this shareholder, together with his shares already registered with voting rights in the Share Register, exceeds the limit of 5% of all registered shares recorded in the Commercial Register. As to the excess shares, the acquirer will be registered in the Share Register as a shareholder or usufructuary without voting rights. On December 31, 1999, 5% of the share capital was equivalent to 3,677,500 registered shares.

Proposed appropriation of retained earnings

Proposal of the Board of Directors

The Board of Directors proposes to the Shareholders' Meeting the following appropriations of retained earnings of CHF 2,101 million for the year ended December 31, 1999:

CHF in millions	1999
Dividend of 60% on 73,550,000 registered shares	1 103
Balance to be carried forward	998
Total retained earnings	2 101

If the Shareholders' Meeting approves this proposal, the dividend will be paid to the shareholders on June 5, 2000:

Per registered share	CHF
Dividend, gross	15.00
Less 35% withholding tax	5.25
Dividend payment, net	9.75

Swisscom Group

Five year review

CHF in millions, except where indicated		1995	1996	1997	1998	1999
Net revenues		9 515	9 532	9 842	10 461	11 160
Operating income before restructuring charges and depreciation (EBITDA)		4 798	4 232	3 779	4 472	4 441
EBITDA margin	%	50.4	44.4	38.4	42.7	39.8
Operating income before restructuring charges (EBIT)		3 047	2 505	2 040	2 851	2 737
EBIT margin	%	32.0	26.3	20.7	27.3	24.5
Restructuring charges		-	-	1 726	(50)	249
Net income (loss) from continuing operations		2 415	1 906	(304)	2 074	2 208
Net income (loss)		2 415	1 830	(415)	1 555	2 391
Net income margin	%	25.4	19.2	n/a	14.9	21.4
Shareholders' equity		(1 394)	(84)	1 230	5 347	6 685
Equity ratio	%	n/a	n/a	7.9	31.6	32.0
Number of full-time equivalent employees at end of period	FTE	20 557	21 951	22 170	21 946	21 777
Average number of full-time equivalent employees	FTE	20 219	21 311	22 145	22 069	20 393
Revenue per employee	CHF in thousands	471	447	444	474	547
Net cash provided by operating activities		4 674	4 115	1 335	3 574	3 366
Capital expenditures		2 173	2 278	2 374	1 305	1 468
Investments in subsidiaries, affiliated companies and other non-current assets		986	764	329	240	3 581
Free cash flow		1 520	1 316	(1 142)	2 235	(1 435)
Key figures per share						
Average number of shares outstanding (at CHF 25.- each)	in mio.	66	66	66	67.888	73.550
Price per share (high/low since October 5, 1998)	CHF	n/a	n/a	n/a	588.-/376.50	656.-/445.-
Net income (loss) from continuing operations	CHF	36.59	28.88	(4.61)	30.55	30.02
Net income (loss)	CHF	36.59	27.73	(6.29)	22.91	32.51
Shareholders' equity	CHF	(21.12)	(1.27)	18.64	72.70	90.89
Gross dividend	CHF	n/a	n/a	n/a	11.00	15.00 *
Pay-out ratio	%	n/a	n/a	n/a	52.0	46.1 *
Market capitalization at end of period		n/a	n/a	n/a	42 291	47 366

* according to the proposal of the Board of Directors to the Shareholders' Meeting

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

Cautionary statement

Except for the historical statements and discussions contained herein statements contained in this annual report constitute "forward-looking statements" within the meaning of Section 27A of the U.S. Securities Act of 1933, as amended, and Section 21 E of the U.S. Securities Exchange Act of 1934, as amended. These forward-looking statements rely on a number of assumptions concerning future events and are subject to a number of uncertainties and other factors, many of which are outside of Swisscom's control, that could cause actual results to differ materially from such statements. These factors include, but are not limited to, telecommunications usage levels, competitive forces in liberalized markets, regulatory changes, technological developments, the success of business, operating and financial initiatives and material adverse changes in economic conditions in the markets served by Swisscom and its affiliates. Readers are cautioned not to put undue reliance on these forward-looking statements, because actual events and results may differ materially from the expected results described by such forward-looking statements. For a more detailed description of these and additional uncertainties and other factors, see Swisscom's filings with the U.S. Securities and Exchange Commission (and in particular its most recent annual report on Form 20-F).

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