

Report on the first half year 2000

Dear shareholders,

Swisscom can once again report a successful first half year. Despite aggressive competition, the company maintained its leading position in Switzerland. As a result of the consolidation of debitel, the revenues of the Swisscom group rose by 33.4% to CHF 6,897 million in the first half of 2000 in comparison to the same period in the previous year. debitel generated revenues of CHF 1,861 million in the first half of 2000 and acquired 1.6 million new customers. Due to the sustained growth of the mobile communications market in Switzerland, Mobile Com acquired 424,000 new customers and increased revenues by 20.4% to CHF 1,364 million in comparison to the previous year. Massive price reductions led to significantly lower margins in fixed-network telephony. Swisscom's operating income (EBIT) amounted to CHF 1,116 million, which represents a decline of 33.6%. However net income rose to CHF 2,420 million in the first half year as a result of the sale of our holding in Cablecom. Given the one-time transactions such as the sale of the holding in Cablecom, we expect to achieve net income at a similar level to last year despite substantially lower operating income (EBIT).

Acceleration in customer growth

By introducing drastic charge reductions and launching extremely attractive special offers such as "Weekend call", Swisscom managed to hold off intense competition in fixed-network telephony. We simplified the tariff structure in order to further improve price transparency for our customers. There is an increasing demand for ISDN services, principally ISDN Light. The number of ISDN channels increased by 43.1% to 1.61 million compared to the same period in the previous year. The launch of ADSL technology – a broadband fixed-network service based on Internet protocol – in the second half of 2000 will pave the way for continued growth in the Swiss telecommunications market.

Mobile communications in Switzerland continues to be Swisscom's growth business. Our customer base of 2.72 million and market share of 68% makes us the clear market leader. Average monthly revenue per user (ARPU) fell in the first half of 2000 from CHF 87 to CHF 72 compared to the same period in the previous year, as new customers make less calls on average. There is a continued boom in SMS data services: 244 million SMS messages were transmitted in the first half year of 2000, representing more than a three-fold increase over the previous year. The launch of new services such as Natel Skyline and location-based mobile services underscore our commitment to meet our customers' increasing communications requirements. Moreover, Swisscom launched Switzerland's major WAP portal and is already providing mobile e-commerce solutions.

The acquisition of debitel, Europe's largest network-independent service provider, expanded our customer base in mobile communications to over 9 million. debitel acquired new customers in the first half year at a rate of 200,000 a month, increasing its share of the German mobile market to over 14%. Before the end of 2000, debitel aims to expand its customer base from approximately 5 million to over 6.5 million in Germany and from 6.5 million to over 8.6 million in Europe. The company already has excellent access to the market with over 7,000 sales outlets in Europe.

Structural changes and increased flexibility

Rapid technological and structural change in telecommunications has far-reaching consequences in the domestic Swiss market. We have initiated a programme aimed at increasing efficiency and sharpening customer focus in response to cost pressures resulting from charge reductions in fixed-network telephony. The main aims of the new strategy are a reduction of complexity, a focus on specific market segments and the clear assignment of responsibility for results. The programme also entails internal structural changes. The basic concept is increased decentralisation of responsibility in our divisions and a strategy that focuses systematically on specific segments of the market. In relation to this restructuring process, we have reached an agreement with the unions on the key values of the social plan.

With a view to increasing Swisscom's flexibility with respect to forging strategic partnerships, we welcome the Federal Council's intention to revise the Telecommunications Enterprise Act. The Telecommunications Enterprise Act provides for the majority holding of the confederation. In view of the rapid consolidation in the telecommunications sector, we must create the room for manoeuvre that will allow us to form alliances.

New economy sets new benchmarks

E-business is the driving force behind the new economy and the financial markets. We are aware of the growth potential market and are aiming to establish a leading position in e-business. Swisscom's Conextrade is set to become Switzerland's leading business-to-business marketplace. An online marketplace optimises corporate purchasing processes and costs. Also, plenaxx.com AG, a service portal in which Swisscom has a holding, provides the first integrated business-to-business portal for Swiss SMEs. plenaxx.com AG aims to become the clear market leader for comprehensive e-business solutions.

Bluewin, Switzerland's leading Internet provider, has shown strong development. Bluewin provides comprehensive Internet services for residential customers and small-office/home-office customers. In addition, Bluewin is launching a joint, neutrally-defined financial portal with two other Swiss companies which will be available from 2001. Bluewin is now a separate subsidiary and is preparing an IPO on the SWX New Market of the Swiss stock exchange in the coming months. The IPO will give the young company increased flexibility, and provide resources to forge ahead with its successful expansion strategy. Bluewin customers will have the opportunity to take advantage of a preferential IPO share offer.

UMTS – a growth market

As the market leader in mobile communications in Switzerland, Swisscom is ideally placed to use existing customer relationships as a basis for future third-generation (UMTS) services. Swisscom is well-positioned to obtain a third-generation mobile licence and intends to apply for a UMTS licence in Switzerland and additional GSM frequencies which will probably be auctioned in the fourth quarter of this year.

debitel Multimedia GmbH, a joint venture between Swisscom and debitel, withdrew from the UMTS auction in Germany after careful economic consideration. In co-operation with debitel, we will focus on the expansion of our current position as Europe's largest network-independent service provider. Before the commercial launch of UMTS, Swisscom and debitel aim to gain a large share of growth in the market through substantial investment in customer acquisition and to operate as an alternative and innovative provider of UMTS services by working together with partners from the pool of successful bidders. Swisscom will operate in Europe's largest growth market and provide an alternative to a UMTS licence. This strategy will lay the foundations for continued growth in the German mobile communications market, for harnessing the potential of the value chain and for developing into a mobile virtual network operator.

Outlook: similar net income to last year

The first full year consolidation of debitel will lead to a significant increase in annual revenues for 2000. debitel will help to improve performance, boost growth abroad and consolidate our position as a leading European provider of value-added services. Due to the expansion of our customer base, we anticipate an increase in revenues in mobile communications in the second half of the year. However, revenues from fixed-network telephony will be lower than last year. Operating income (EBIT) will be substantially lower than last year because of restricted domestic growth opportunities and sustained price pressure.

Given the one-time transactions, such as the sale of the Cablecom holding, we anticipate similar net income to last year. The sale of part of our real estate portfolio in Switzerland is planned for 2001.

Yours sincerely



Dr. Markus Rauh
Chairman of the Board of Directors



Jens Alder
CEO