
MOVING A CHANGING WORLD.
swisscom

Facts and figures for the 2000 financial year

CHF in millions, except where indicated		1999	2000
Swisscom Group			
Net revenues		11 052	14 093
Operating income before depreciation (EBITDA)		4 192	4 039
Operating income (EBIT)		2 488	1 836
Net income from continuing operations		2 208	3 092
Net income		2 391	3 161
Shareholders' equity		6 685	8 592
Equity ratio	%	32.0	38.9
Number of full-time equivalent employees at 31.12	FTE	21 777	20 604
Average number of full-time equivalent employees	FTE	20 393	20 989
Revenue per employee	CHF in thousands	542	671
Net cash provided by operating activities		3 366	4 186
Capital expenditures		1 468	1 450
Investments in shareholdings		3 333	139
Free cash flow		(1 435)	4 689
Swisscom AG			
Net income		1 828	2 709
Shareholders' equity		6 652	8 330
Dividend		1 103	809*
Capital reduction		–	588*
Key figures per share			
Average number of shares outstanding (at CHF 25 each)	in millions	73.550	73.550
Price per share (high/low)		656/445	754/361
Net income from continuing operations		30.02	42.04
Net income		32.51	42.98
Shareholders' equity		90.89	116.88
Gross dividend		15.00	11.00*
Capital reduction		–	8.00*
Pay-out ratio	%	46.1	44.2
Market capitalization at end of period		47 366	31 001

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

Highlights 2000

January Swisscom connects its 500,000th ISDN access line. In the interim, ISDN penetration across the Swiss fixed network has risen to 27%.

February Swisscom Mobile opens its WAP portal and makes Internet access possible via mobile phone.
In the environmental ratings of Munich-based Oekom Research, Swisscom heads the list of 27 international telecommunications companies.

March On 1 March Swisscom reduces basic charges for domestic and international calls and calls on Swiss mobile networks by up to 70%. The standard rate for national long-distance calls drops from 25 to 12 centimes a minute, while the weekend rate for calls to neighbouring countries and North America falls to 10 centimes a minute.

April conextrade, an electronic business-to-business marketplace, starts pilot operations and handles its first online transactions.

May In the first five months Bluewin, Switzerland's largest Internet service provider, almost doubled the number of registered access customers to 500,000. Bluewin has been operating as a public limited company since 1 May 2000.

June plenaxx.com AG, in which Swisscom holds a 24.4% share, sets up the first fully integrated business-to-business Internet portal for small and medium-sized enterprises.

July Green light for the new Swisscom collective labor agreement (GAV): after approval from the employee associations, Swisscom and the social partners sign a progressive new collective labor agreement. This places the employment relationship of Swisscom staff under private law from 1 January 2001.

August Swisscom adapts to the changing telecoms environment and announces its intention to make a step-by-step transition to a group-based structure by the end of 2001.

September Swisscom Mobile makes the popular SMS facility even more attractive and reduces domestic SMS messaging charges by a third to 20 centimes per message.
With its redesigned Website Swisscom offers the most comprehensive WAP portal in Switzerland. The WAP service, providing access to Internet-based information and services via mobile phone, already boasts 65,000 users.

October The Federal Communications Commission grants Swisscom an additional GSM frequency enabling it to provide even better network coverage for its mobile customers.
Swisscom Mobile welcomes its three millionth customer on the NATEL network – doubling its customer base within two years.

November Swisscom enters into strategic partnership with Vodafone, European market leader in mobile telephony. Vodafone is to take a 25% stake in Swisscom Mobile AG in a move aimed at strengthening Swisscom Mobile's hand in the fiercely contested mobile communications market.

December Swisscom is awarded one of the four Swiss UMTS licenses auctioned for a price of CHF 50 million, and starts planning its UMTS network.
Rollout of ScreenPad, a brand new innovation for mobile surfing and e-mailing.

2000 – A year full of dynamism

DEAR READER

The magical year 2000 is now behind us. And it failed to live up to the hype after all. The much-talked-of crash in the world's computer systems as a result of the millennium bug did not come about, which goes to show that businesses that rely on computer technology have their operations firmly under control.

From Swisscom's point of view, the magic of the year 2000 was provided by a number of outstanding achievements. In 2000 we increased revenues by 27.5% and net income by 32.2%. As a full-service provider offering comprehensive customer services in the domestic market, we maintained and in some areas enhanced our leading position. Internationally we advanced into markets promising future growth and profit. We were strengthened in our belief that, in terms of strategy, we have set the right course.

The results achieved give us cause to be satisfied with the 2000 financial year. And it is obvious to all of us that our success had nothing to do with magic numbers but was the result of a targeted plan of action. Our market success is attributable to the hard work of our staff, to our partners and above all to our loyal customers, whose numbers now exceed well over 10 million in the domestic and international markets.

TWO IMPORTANT STEPS INTO THE WORLD OF UMTS

Looking back over the year, two events of particular importance stand out. At the beginning of November we entered into a strategic partnership with the British Vodafone Group, one of the biggest players in the global market. Vodafone has taken a 25% equity stake in Swisscom Mobile AG, formerly the Mobile Com Division. The partnership between Swisscom Mobile and Vodafone was approved at an Extraordinary Shareholders' Meeting on 19 March 2001. In forming this partnership we have laid the foundations for a successful future in the new UMTS era and have ensured access to the growing European mobile telephony market. While gaining access to Vodafone's UMTS technologies, services and products, Swisscom Mobile also maintains full control of business on the Swiss market.

The second outstanding event of 2000 was the winning of a UMTS license in Switzerland. This license will allow us to sustain our leading position in the domestic market in the new era of UMTS. We are pleased to say that the auction in Switzerland did not lead to exorbitantly high prices. Swisscom purchased its UMTS license for CHF 50 million.

The fact that new and traditional telecommunications services will increasingly converge in future and will dovetail with Internet technology makes these two events extremely significant. In 2000 Swisscom placed itself in an excellent position for the competitive times ahead.

SIGNIFICANT GROWTH IN REVENUE

Swisscom consolidated its position in both domestic and international markets in 2000. With a staff of around 20,600 we increased our net income from CHF 2.4 billion to 3.2 billion. The increase was due principally to extraordinary income, for example from the sale of our holding in Cablecom AG. The Board of Directors proposes to the Shareholders' Meeting an increased pay-out of CHF 19 per share, representing CHF 11 as dividend and CHF 8 as capital reduction. Revenues advanced from CHF 11.1 billion in 1999 to CHF 14.1 billion in 2000. The growth in revenues was primarily the result of the full consolidation in our annual accounts of our subsidiary debitel. The figures recorded in our most profitable area of business, Swisscom Mobile, were gratifying: acquisition of 1.5 million new customers meant we maintained our market share. Bluewin, the country's biggest Internet service provider, also achieved impressive market success. At the end of 2000 Bluewin's customer base included 549,000 active Internet surfers.

However, despite these excellent figures we should not forget that, in the third year following liberalization of the Swiss telecom market, competition intensified again and the number of players in the domestic market continued to increase. In fixed network telephony we responded to the aggressive pricing policy of other providers with equally sharp reductions in charges. In the domestic market the cut in charges from 1 March 2000 amounted to a reduction of over 50%. Nonetheless we suffered further losses in market share in fixed network communications. The dramatic erosion of margins had a detrimental effect on our operating income, with EBIT falling from CHF 2.5 billion to CHF 1.84 billion.

WE AIM TO REMAIN THE LEADING FULL-SERVICE PROVIDER

Further increase in competition is in line with the wishes of the regulator. However, the free market is also in our own interest. Convinced that we are well equipped for the future, we face the market with confidence. In order to secure what we have already achieved and to open up new markets, we have refined our strategic approach. We want to remain the leading full-service provider of telecommunications products and services in Switzerland and to expand internationally with debitel as a competitive provider of mobile data and value-added services.

Over the course of 2000 we took significant steps towards realizing this vision, notably our partnership with Vodafone, the establishment of new companies as providers of specific Internet platforms, and also our decision to convert Swisscom's existing parent company structure into a group structure. This will reduce organizational complexity, bring clear allocation of responsibility for results and enable the future group companies to achieve optimum customer focus and maximum flexibility.

SHARE PRICE FLUCTUATIONS

In the telecommunications sector the year under review was marked not only by fierce competition but also by turbulence on the financial markets. The high-tech sector is in a phase of upheaval. Technological advances, in general, and developments in e-business, in particular, are moving at breakneck speed making investor risks difficult to calculate. Swisscom's shares suffered as a result, losing around CHF 220 over the financial year. However, they fell less steeply than most other European telecom stocks. The growth in the number of shareholders demonstrated that investors' confidence in Swisscom is undented: at the end of 2000 we had 78,825 shareholders, 25,886 (+48.9%) more than at the start of the year.

SOCIAL COMMITMENT

In collaboration with the employee associations, last year we negotiated a collective labor agreement which, compared to agreements in other sectors of the Swiss economy, offers very modern terms of employment. The agreement entered into force on 1 January 2001. In the spring of 2000 we announced our intention of reducing our payroll in the years 2001–03 by around 3,000 full-time equivalent jobs and that an equal number of jobs would be outsourced. If we wish to remain competitive, measures are unavoidable. The reductions will be based on the social plan agreed with the employee associations in autumn 2000, in keeping with our policy of social commitment. The establishment of WORK_LINK AG is an innovative solution. WORK_LINK AG, a joint venture between Swisscom, the employee associations and the employment agency Manpower, was set up to help employees who are laid off to seek new employment.

WE NEED MORE ROOM FOR MANEUVER

Swisscom intends to continue meeting public-service telecommunications requirements nationwide, providing first-class services. We are nonetheless – as will be seen very clearly from other sections of our Annual Report – operating in an extraordinarily dynamic environment. To remain competitive we need to be able to respond quickly and flexibly to technological and market developments both from an entrepreneurial and organizational point of view. We thus also need to be in a position to work with other companies and groups and enter into alliances under the same conditions as our competitors. Depending on the particular form such partnerships take, it may be necessary for the Swiss government to give up its majority holding. The current obligation for the Swiss government to hold a permanent majority of shares and votes, as enshrined in the Telecommunications Enterprise Act, is restrictive and could ultimately jeopardize Swisscom's future. We are therefore grateful that the Federal Council intends to take this into account and, while maintaining economic interests, amend the constitution to create room for such options which, if needed, could be put into effect within a reasonable time span.

CHANGE IN MANAGEMENT

Within the Executive Board, Adrian Bult, previously Head of Corporate Information Technology, assumed responsibility for the newly created Consumer Communication Division on 1 January 2001. Mr Bult handed over to Mauro Santona. The 43-year-old engineer previously headed up Application Engineering in the Information Technology Division. Also on 1 January 2001 Carsten Schloter took over responsibility for the Mobile Com Division. Mr Schloter was previously in charge of Mobile & Public Com.

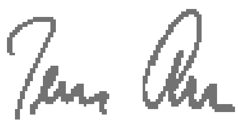
Jürg Marx, Head of Human Resources, and Dominik Koechlin, Head of Strategy & International, left the Executive Board in 2000. Walter Heutschi, the pioneer of Swiss mobile communications, also left Swisscom.

THANK YOU

At the end of a year rich in challenges we would like to express our appreciation to all of our employees whose hard work and commitment helped to make the year 2000 a success. The fact that we achieved our goals is thanks to everyone, individually and collectively. We would also like to thank our shareholders and customers for their loyalty and the trust they place in Swisscom every day.

This Annual Report is designed to give you an overview of our achievements and core activities in the year 2000, as well as an insight into future trends and the Group's visions, intentions and strategy. Further information on Swisscom can be found on the Internet at *www.swisscom.com.*

Yours truly



Markus Rauh
Chairman of the Board of Directors

Jens Alder
Chief Executive Officer

Moving a communications driven society

Swisscom once again defended its position as a leading provider of telecommunications services in an increasingly competitive market. This is a position we wish to maintain. We are compensating for lower margins and loss of market share in Switzerland through focused expansion in international business. Creating added value for our customers, concentrating on core business in Switzerland and expanding into growth markets are the strategic goals of our company. To create an even sharper distinction between ourselves and the competition and to respond even faster to the market, we are reorganizing our parent company structure into a group structure.

THE CHALLENGES OF A DYNAMIC MARKETPLACE

Over the last ten years or so the telecommunications market has seen liberalization, privatization and cut-throat competition. Both nationally and internationally markets remained as dynamic as ever in 2000. There can be no other sector which arouses such expectations and offers such opportunities for the twenty-first century. The attractions of this environment meant that at the end of 2000 more than 300 registered companies were active in the Swiss market – as competitors, but also as potential customers for Swisscom, which aims to maintain its position as market leader. For this reason we want to achieve further growth, enhance our competitiveness and create added value for customers, investors and staff. Our efforts are focused on the growth areas of mobile communications, broadband access and IP services, the Internet and e-commerce as well as the marketing of (wholesale) network services to resellers and alternative network providers.

FALLING PRICES – TIGHTER MARGINS

The principal beneficiaries of this market dynamism are our customers. They are able to enjoy an ever greater variety of products and services on increasingly favorable terms. Prices in fixed network telephony, for instance, have fallen by more than 50% over the last five years, and international charges have in some cases decreased by up to 70% in the last two years alone.

These sharp price reductions have resulted in a considerable narrowing of margins, a process which the dynamism of the market continues to drive. Providers need to generate higher revenues and focus their service offerings. Restructuring measures and mergers are consequently unavoidable, particularly as – and this is another key feature of the market – the telecommunications sector requires very high levels of investment. For instance, Swisscom expects to invest over a billion Swiss francs in constructing its UMTS network alone. In e-business, too, considerable investment is necessary, and at the moment such investment usually carries no guarantee of subsequent operating profits.

In addition to intense competition and rapid advances in technology, a third feature of the telecommunications market is its turbulence. The very diverse results of UMTS auctions in Europe are a clear demonstration of this turbulence. The future development and likelihood of success of individual services are also difficult to predict. For instance, nobody expected the boom which has taken place in SMS. Over the New Year period alone, 16.2 million SMS messages were sent over the Swisscom network. In response to the unpredictable market conditions, the mood on the financial markets has been very changeable, and telecom share prices have consequently been subject to considerable fluctuations.

CREATING ADDED VALUE ...

We aim to focus on our role as a value-added service provider, which places customers and customer business at the center of its operations, which systematically harnesses the potential for boosting revenues, and which is able to significantly expand its customer base abroad. We will create added value for our customers through innovative product design, appropriate marketing measures, outstanding service and the bundling of tailor-made product-service packages. As a full-service provider, we cover the entire value-added chain. This distinguishes us from the majority of our competitors, who generally concentrate on individual elements in the chain. Our strategic approach in domestic operations is to concentrate on core business. Our core business consists essentially of network operations and services in fixed network and mobile communications for business and residential customers, as well as e-business. In e-business we have plotted a robustly forward-looking course with the establishment of conextrade AG and our participation in the new company plenaxx.com AG.

... AND EXPANDING INTERNATIONALLY WITH DEBITEL

In view of the limited size of the Swiss market and the government's desire for greater competition, Swisscom would have difficulty achieving any decisive growth in its core business at home. Therefore, in order to compensate for potential loss of market share in domestic areas, we are expanding abroad. Indeed, in 2000 we generated around a third of our revenues outside Switzerland. Internationally, Swisscom is concentrating on network-independent communications. It wishes to establish itself as a competitive provider of mobile data communications and value-added services in Europe and strengthen its position in the growing European mobile communications market. The main driving force in exploiting these markets is our subsidiary debitel. This company, in which Swisscom held a 74% stake at the end of 2000, is number three in the German mobile communications market and the largest network-independent service provider in Europe, with highly successful market operations. In 2000 debitel expanded its customer base from 4.7 million to 8.6 million, an increase of 83%. In Germany debitel has a market share of around 14% and also has a presence in Denmark, the Netherlands, France and Slovenia. We anticipate that in the future the company will continue to enjoy a disproportionately high share of market growth.

STREAMLINING OUR COMMITMENTS ABROAD

As part of its strategic refocusing on mobile data communication and value-added services, in the year under review Swisscom took steps to streamline its partnerships abroad. In August we sold – at a profit – our 50% share in tesion Communikationsnetze Südwest GmbH to part-owner Energie Baden-Württemberg. We also intend to sell our shares in Alsace-based Estel and Milan-based Swisscom SpA Italy. By the end of 2000 our obligations in connection with the strategic partnership with Cesky Telecom were fulfilled from Swisscom's perspective.

UTA, our 45.5% holding in Austria, purchased Netway in the year under review to become the biggest Internet provider in the country. UTA is the second largest telecommunications provider in Austria with more than 270,000 customers.

ALIGNMENT OF OUR CORPORATE STRUCTURE

In the year under review the company decided to reorganize by converting from a parent-company structure into a group structure. The aim of this reorganization is to reduce complexity, enhance transparency and pave the way for an even more effective allocation of responsibilities. The group structure will create smaller, largely autonomous units with their own distinct strategies and the ability to respond quickly and effectively to market needs. A group structure will also improve opportunities for entering into strategic partnerships in individual segments. Examples of this are the successful alliances forged between Swisscom Mobile and Vodafone and between Bluewin and various content providers.

In addition to spinning off various operations to form independent companies, as part of its drive to focus more intensely on core business, Swisscom is also looking into outsourcing individual operations. In the year under review the satellite business and the repair workshops in Neuchâtel were sold.

WE INTEND TO CONTINUE MEETING THE PUBLIC-SERVICE REQUIREMENT FOR TELECOMMUNICATIONS SERVICES AFTER 2003

Under the terms of the Telecommunications Act, Swisscom is committed to meeting Switzerland's public-service requirements until the end of 2002. It is our declared goal to uphold this responsibility after 2003 and to offer modern top-quality telecommunications services with guaranteed access to global networks throughout Switzerland. Every Swisscom access, irrespective of geographical location, can already be used for Internet, e-mail and other applications. Swisscom is thereby playing a significant part in bringing about the information society.

As part of our 'Universal Service Obligation 2003' project we have started making the necessary preparations for the renewal of our mandate.

Major participations and alliances

Swisscom AG

International

- 100% **Swisscom North America**
- 100% **Telecom FL AG**
- 74.2% **debitel AG**
- 49% **TelSource N.V.***
- 45.5% **UTA AG**
- 17.7% **Infonet Services Corporation**

National

- 100% **Swisscom Immobilien AG**
- 100% **Swisscom Immobilien Invest AG**
- 100% **Billag AG**
- 100% **Conextrade AG**
- 92% **Bluewin AG**
- 90% **Infonet (Schweiz) AG**
- 51% **Swisscom Directories AG**
- 49% **PubliDirect Holding AG**
- 24.4% **plenaxx.com AG**

* TelSource has a 27% holding in Cesky Telecom.

At 31.12.2000

Forging ahead for our customers

In 2000 we continued to give top priority to enhancing our customer relationships and to delivering an outstanding range of services to the individual segments. Adjustments in our organizational structure aimed at optimizing our core business operations in Switzerland will allow us in future to meet the many and varied demands placed on a full-service provider even more effectively. We aim to strengthen customer loyalty by ensuring excellence in customer service, innovation in our range of services and an optimum price/performance ratio.

EARNING THE TRUST OF OUR CUSTOMERS DAILY

Swisscom serves four million residential and business customers in Switzerland and a further nine million abroad. All these customers rely on Swisscom and its subsidiaries and place trust in their services, experience, expertise and ability to innovate. Earning this trust on a daily basis is Swisscom's first priority. Ultimately, customer satisfaction will determine our success in a hard-fought national and international market. In line with its strategic goals, Swisscom aims to build on its strength as a full-service provider in the Swiss market, turning it into a decisive competitive advantage. Our top priority is to deliver tailor-made products and services. The more familiar we are with these needs, the better we are able to focus on developing and marketing our product ranges. Segmentation of our customers according to criteria such as residential/business, size, needs, etc. allows us to develop clear market segment strategies.

CHANGES IN CUSTOMER SEGMENTATION

In 2000 we formulated further changes to our customer segmentation which were introduced on 1 January 2001. In fixed-network telephony, residential customers and small and medium-sized enterprises are now divided into Premium and Classic segments. Premium boasts around 340,000 customers. Offerings encompass the areas of data transmission, value-added services and innovative products. For the Classic segment, with around three million customers, we provide basic cost-effective user-friendly products.

Enterprise Solutions meets the needs of around 50,000 business customers. Under the heading Major Accounts Swisscom serves just over 4,000 national and international customers, each generating revenues of between CHF 150,000 and CHF 1.5 million. In addition we serve the needs of the cantons, 2,900 local authorities and the whole federal government administration.

MORE MEASURES THAN YOU MIGHT THINK ...

We aim to maintain customer loyalty by providing excellent customer service, a range of innovative products and value-added services which meet the specific needs of the various customer groups, and an excellent price/performance ratio. The Joker bonus program, introduced in February 1999, was discontinued at the end of March 2001 as a result of market changes, price reductions and new customer requirements. Around 700,000 residential customers took part in the Joker bonus program.

In our marketing communications we have positioned the Swisscom trademark and our company's products and services in line with market requirements. For instance, our 'Lower than you think' advertising campaign was a huge success and convinced customers that Swisscom charges reasonable prices. However, our image is conveyed not only through traditional advertising, but also through our involvement in sponsorship, where we concentrate mainly on sporting and cultural events. We also provide patronage for science, environmental projects and social institutions.

DIRECT AND INDIRECT CUSTOMER CONTACT

Our 74 Swisscom shops allow us to foster direct contact above all with residential customers. During the period under review Swisscom revamped the image of its shops, bringing added transparency and a high level of functionality that proved as popular with customers as the new design. The new design reflects Swisscom's status as a quality brand. With over 1.2 million customers and over four million customer service transactions a year, the Swisscom shops provide an excellent communications platform as well as an important distribution channel. The shops offer both sales and advisory services.

We are also anxious to serve the needs of customers in regions where we do not have our own shops. To do this we set up contracts with outside distributors which then sell our products. Swisscom works with 3,500 specialist retailers and with selected wholesale traders and specialized discount shops in all parts of the country. We attach great importance to these collaborative arrangements. The majority of consumers who choose our products do so in these shops.

In October a virtual alternative to our Swisscom shops was established: Swisscom's new E-Shop. This virtual shop allows customers to peruse through Swisscom's range of products at their leisure and make purchases at any time of the day or night via the Internet *(www.swisscom.com/e-shop).*

DIRECT MARKETING CENTER

The transition from a growth market to a predatory market means there is a much greater need for direct marketing based on integrated customer data. With its own Direct Marketing Center, Swisscom has assembled the necessary infrastructure and expertise to enable carefully differentiated, segment-specific marketing. This gives Swisscom an additional means of generating customer loyalty. Around 200 staff work in daily contact with customers and carry out direct marketing campaigns. Thanks to an extremely modern IT infrastructure, the Direct Marketing Center succeeded in expanding its activities in the period under review. Through the use of Customer Relationship Management (CRM), it was able to target individual customer needs. The Direct Marketing Center thus makes an important contribution to stable customer relationships.

MORE THAN TWO MILLION CALLS TO 0800 800 800

In 2000 we set up the number 0800 800 800 for inquiries from Swiss residential customers. After a few teething problems operations have now settled down. Response times have been brought down. Our Call Centers answered more than two million calls last year. State-of-the-art software enables staff to swiftly access all the customer's data and thus provide individual customer care and advice. In 2001 we will continue to work systematically on optimizing quality of service. Automated order processing will allow us more time for actual customer care. The individual processes will be simplified and thus made more transparent to our customers.

24-HOUR CUSTOMER SERVICE

Our technical Customer Service operation, with over 2,000 staff, is on call 24 hours a day, 7 days a week. Some 2.3 million calls were taken on the number 175 in the year under review. Our service technicians dealt with 520,000 faults on-site.

At the beginning of 2001, Customer Service was divided up into different areas of responsibility. Most of the staff work in the newly created PBX (Private Branch Exchange) Services section. PBXs are complex installations allowing internal and external communication which we offer to companies of all sizes. PBX Services plans such installations in close cooperation with the customer. It analyzes processes, environment and requirements, formulates the best possible long-term solutions, installs the whole infrastructure and ensures the smooth operation of equipment. As part of this service customers also benefit from a comprehensive service package, round-the-clock availability, remote maintenance and an outstanding price/performance ratio.

WHOLESALE – THE CUSTOMER AS RESELLER

Swisscom's major customers also include alternative network providers. In 1998 Swisscom set up a Wholesale operation which provides services exclusively to resellers. Nationally, Swisscom's Wholesale operations are based essentially on regulated business with preset prices. However, the share of non-regulated products is constantly increasing, mainly in the area of data and fully integrated solutions for wholesale customers.

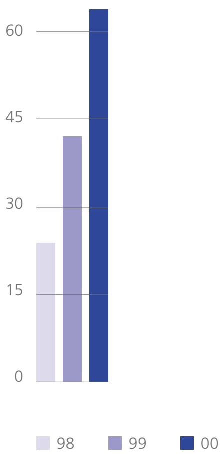
Since the beginning of 2000 interconnection costs have been determined using the 'long-run incremental costing' (LRIC) method. The LRIC method is based on international experience and sound analytical research. The prices calculated using the LRIC method allowed Swisscom to cut charges by up to 6% with effect from 1 January 2001. The prices offered to other service providers cover only the relevant interconnection costs and do not contain a profit element. Swisscom prices are now in line with the European average. Around 40 operators currently have an interconnection agreement with Swisscom.

In Swisscom's international wholesale business the main events of 2000 were the organizational integration of Swisscom North America in Washington D.C. and the creation of new sales offices in London, Frankfurt and Milan.

Swisscom Mobile: all set for a bright future

With 1.5 million new customers, Swisscom Mobile maintained its position as clear market leader in a highly dynamic and competitive market. Our market share remained stable. The purchase of a UMTS license provides an ideal basis for entering the third-generation mobile communication market, while our partnership with Vodafone offers vast opportunities and development potential.

Market penetration
as % of population



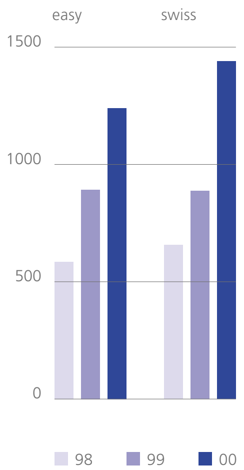
An extremely tight mobile communications market became tighter still in 2000. Market penetration in mobile telephony increased sharply from around 40% to 64%, giving Switzerland one of the highest rates in Europe. Aggressive marketing from all providers, with numerous deals for subsidized handsets, played a decisive part in this boom. Whereas in 1999 a high-quality mobile phone cost about CHF 1,000, new customers buying the same terminals in the year under review would rarely have had to pay more than CHF 200. In conjunction with cheaper handsets, 12-month contracts were systematically introduced in the summer and 24-month contracts at the beginning of 2001.

Having slumped by up to 50% in 1999, price levels remained more or less unchanged in the year under review.

SWISSCOM MOBILE DEFENDS ITS MARKET SHARE

Swisscom Mobile's primary aim in 2000 was to defend its market share. We thus focused on three main measures: acquisition of new customers, long-term retention of existing customers and communication of our strategic competitive advantages, i.e. network quality and coverage. The results achieved in 2000 bear witness to the success of these measures: in net terms we acquired around 900,000 new customers for the NATEL network. At the end of 2000 we had a total of 3.17 million customers. This means that Swisscom Mobile has a stable market share of 68%. In parallel with these successes on the market, we significantly enhanced the services provided by Swisscom Mobile while at the same time improving customer service.

The NATEL boom
(in thousands)

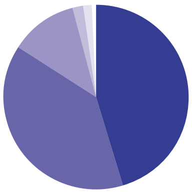


FOCUSED CUSTOMER CARE

Increased efforts to ensure customer loyalty prompted a whole raft of measures last year. These measures will continue to have a high priority in the years ahead. The most important ones are:

- Low-cost equipment deals for new and existing customers via Swisscom Mobile's hotline and through selected sales outlets
- Excellent customer service
- Segment-specific customer marketing
- Stronger market presence
- Greater user awareness of existing and new products
- Further improvement in network quality.

NATEL GSM
Total 3,168,000



NATEL easy	1,228,676
NATEL swiss	1,435,342
NATEL international	374,547
NATEL business	58,869
NATEL CMN	46,667
NATEL private	23,899

Every month, between 60% and 70% of all new customers opt for Swisscom Mobile. This is due primarily to the fact that our mobile network is outstanding in terms of quality and coverage. In 2000 we invested CHF 300 million to further improve and extend the network. By both national and international standards, our network is one of the best.

PARADIGM SHIFT IN MOBILE COMMUNICATIONS

In Switzerland, and indeed throughout western Europe, the market for mobile communications has seen rapid growth over recent years. New technology will bring additional sales potential in the future. Whereas at the moment voice communication still accounts for around 95% of our revenues, within the next five years we expect data communication and value-added services to be generating around half the revenues of Swisscom Mobile – thanks to new technologies such as GPRS (General Packet Radio Services) and UMTS (Universal Mobile Telecommunications System). Mobile communications and Internet technology are converging. This means that revenues will be generated both through pure data transmission and through transactions and value-added services such as mobile portals and information services. These offer great potential for service differentiation and will therefore be important factors in market success.

In view of this paradigm shift, in the year under review we introduced a series of strategic initiatives aimed at ensuring the future market success of Swisscom Mobile. The most important of these initiatives were the strategic partnership with Vodafone, the founding of our own Service Creation Unit and the setting-up of a mobility portal.

STRATEGIC PARTNERSHIP WITH VODAFONE

Pan-European conglomerates, with clear advantages of scale over local operators, are a growing feature of the European market. This is having an effect, for example in the development of services. Conglomerates have significantly greater financial scope for acquisitions and joint ventures, and also have a large customer base over which investments can be more widely distributed.

It was for these reasons that Swisscom Mobile entered into a strategic partnership with the European market leader Vodafone in 2000. Vodafone has taken a 25% stake in the new Swisscom Mobile AG. Under the terms of this partnership, Swisscom Mobile gains access to existing products and services and new innovations. The collaboration with Vodafone will also allow us to provide international roaming for UMTS. Furthermore, Swisscom Mobile will be able to sell its own products to Vodafone subsidiaries Europe-wide.

SWISSCOM MOBILE SETS UP ITS OWN SERVICE CREATION UNIT

A second initiative is aimed at developing new services. Attractive services providing the customer with clear added value will be the key to success in mobile communications – especially in the marketing of GPRS and later UMTS. New services such as Personal Unified Communications, mobile payment, information services and mobile data communication will be important fresh sources of revenue. Such potential needs to be swiftly identified on the market or developed and then translated into a service to sell to the customer. For this reason we decided to set up our own Service Creation Unit which will serve both Swisscom Mobile and other companies. This commitment to developing services will ensure that Swisscom Mobile remains competitive, while also putting us in an ideal position with regard to future partnerships.

A MOBILITY PORTAL

The third strategic initiative is the establishment of a 'mobility portal' – an Internet portal with services which can be accessed via mobile phone. Swisscom Mobile's partnership with Vodafone gives it the option of working in conjunction with Vodafone with the multi-access portal 'Vizzavi'. We plan to launch our own mobility portal at the end of the second quarter of 2001. Mass-market GPRS equipment will be available by then. The mobility portal will enable us to successfully develop, market and sell personalized services and applications and thereby help ensure future customer loyalty.

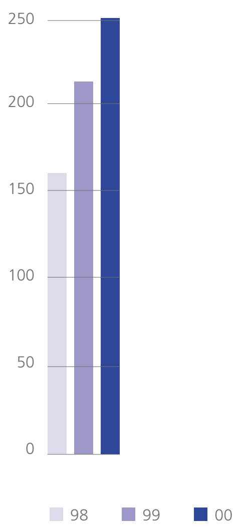
UMTS LICENSE FOR SWISSCOM

By acquiring additional GSM frequencies we have created the basis for further extension of the NATEL network for our large customer base. The purchase of one of the four Swiss UMTS licenses also means we are ideally positioned to establish ourselves in the new market for third-generation mobile communications. The first pilot projects are scheduled for the end of 2001.

As it is anticipated that the development of UMTS will complement GPRS, we will be putting a lot of effort into developing and rolling out services at precisely the right time. UMTS will initially only be available in urban areas. However, Swisscom Mobile customers will also be able to use the same range of services outside these areas, through GSM/GPRS. Thanks to dual-mode phones, the transfer from UMTS to GSM/GPRS will be seamless.

Although Swisscom Mobile was ready for GPRS at the beginning of 2001 and had already implemented the new standards in the NATEL network, we purposely held back before bringing these services to market. The reason is simple: the small number of GPRS terminals available at the moment does not yet allow the full bandwidth to be used. The first terminals which can make full use of GPRS will not be available before summer 2001 and Swisscom Mobile will then make GPRS available commercially.

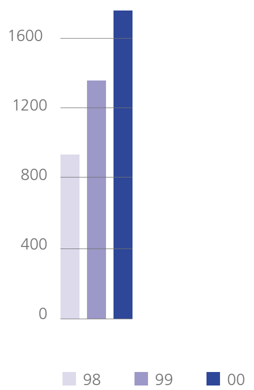
Roaming agreements



Fixed network: traditional business in flux

The fixed network telephony market is characterized by falling prices and fierce competition. Swisscom successfully defended its leading position in the domestic market and now has more than three million customers throughout Switzerland. Traffic volume was unchanged on the previous year. The future of fixed network telephony belongs to broadband communications. In this area we have created the necessary conditions to achieve above-average growth. Demand remained strong for the directory inquiries service 111, phonecards and payphones as well as the successful ISDN product.

ISDN channels
in thousands

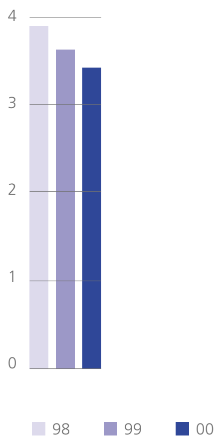


THE BACKBONE OF TELECOMMUNICATIONS

Fixed-network telephony is still Swisscom's largest area of operations. This traditional area of telecommunications comprises all products and services with the exception of mobile telephony and PBXs. In terms of Swisscom core offerings, fixed network services are the backbone of telecommunications. Our efforts to reorganize and expand in this area are thus all the more important for the company's future. We are working in a clearly segmented and focused market, offer a range of products tailored to the needs of individual customer groups and are constantly streamlining complex processes and products.

With over three million customers in the domestic market, Swisscom enjoys a degree of recognition and a wealth of experience which it is able to turn to its advantage. Our approximately 250,000 small and medium-sized enterprise (SME) customers also continue to be an important segment for Swisscom. Which is why in future we will be striving, through technological improvements such as the automation of order processing, to reduce waiting times and so further increase customer satisfaction.

Analog fixed-network accesses
in millions



VOLUME OF TRAFFIC STABLE – REVENUES DOWN

Over the year 2000 total traffic volume – measured in minutes – remained steady at approximately 17 billion. In long-distance traffic, intense competition prompted a sharp fall in charges. Revenues from international and national long-distance traffic in 2000 were down on the previous year. Total revenues from fixed network telephony came in at around CHF 1.8 billion. Swisscom has a roughly 55% share of the Swiss market for international traffic and a 69% share of national long-distance traffic. The company's position remained very strong in the local area segment, where we have a market share of approximately 83%.

STAR PERFORMER ISDN LIGHT

Our core product is ISDN. At the end of 2000 there were 1.78 million ISDN channels in operation. From the customer's point of view, ISDN dovetails perfectly with the dynamic possibilities of mobile phones and Internet communications. ISDN is one of the strands in the trend towards mix-and-match combinations of even the most varied forms of telecommunication services. Whilst the number of ISDN basic access lines is growing at a modest rate, ISDN Light has huge growth potential which needs to be fully harnessed. Last year ISDN Light expanded by 73%. This massive growth is largely attributable to the sustained boom in Internet use. Last year's growth rate for ISDN primary access lines was 5% in line with expectations. ISDN penetration of the fixed network rose from 27.5% to 34.5% in the year under review, giving Switzerland a position amongst the world leaders in terms of ISDN use.

ONGOING DEVELOPMENT OF PRODUCT RANGE

In order to consolidate our position as Swiss market leader in fixed network telephony, we are constantly fine-tuning our range of products. In the case of terminals there is a growing trend away from wired to cordless phones. Fax machines are becoming multi-functional terminals with integrated e-mail. Swisscom's commitment to technological innovation is paying handsome dividends. A good example of this is the company's successful introduction of ScreenPad, a portable user-friendly terminal for e-mail and Internet surfing, and a world first.

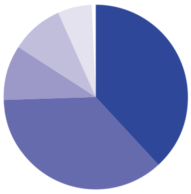
A comparatively small but nonetheless lucrative line of business in which Swisscom is involved is phonecards and access services. Prepaid cards clearly satisfy a very real customer need. The fact that they are so reliable for the user has further strengthened customer confidence in this particular service. The growth we expect to see in prepaid card use makes this a niche market with a promising future.

ATTRACTIVE VALUE-ADDED SERVICES

We continued to achieve success in Operator Services (OPS), including the traditional directory inquiries service 111, Connect 1144 and conference calls. Our Payphone Services area (PPS), dominated by traditional payphones, also performed well in the year under review. The approximately 10,700 public payphones operated by Swisscom are an important part of the public-service requirement we meet. In private payphones we command a market share of 98%.

Business numbers are an area with great future potential. They already account for over 90% of revenue in the value-added services segment. Swisscom is therefore committed to expanding its strong presence in the fast-growing market for 0800 and 0900 numbers, while continuing to develop other value-added services in areas such as public communications and virtual private networks.

Net revenues
Fixed network (excl. Wholesale)



National traffic	38.1%
Subscriber lines	36.4%
Customer premises equipment	9.6%
International traffic	9.2%
Terminals	6.0%
Value-added services	0.7%

BROADBAND COMMUNICATIONS – THE WAY AHEAD

The future belongs to broadband communications. Following the shift from traditional telephone lines to ISDN, we are now on the threshold of the era of broadband communications. With ADSL technology we are perfectly placed to play a leading part in providing broadband Internet access. Growth in the residential customer and SME segments is set to be well above-average. The fact that the transmission speed of ADSL is already eight times greater than that of ISDN gives weight to this prediction. The new broadband technology will also pave the way for rapid expansion of value-added services as well as new combinations of applications. At the same time it will enable transmission of large volumes of data at the kind of speeds necessary to handle graphics, images, video and sophisticated games and entertainment products.

Digital communications: key to the future

In 2000 Swisscom substantially expanded its e-business activities, establishing itself as the undisputed number one in the Swiss market. Bluewin was able to increase its market share by 8%. In the year under review, we launched Conextrade, an electronic marketplace, and Plenaxx, a new portal for the electronic transaction of business between companies. We also achieved growing success with our Internet-protocol-based networks, which are of strategic importance for e-business and future multimedia applications.

MULTIMEDIA DATA COMMUNICATIONS

Digital communication is becoming an increasingly complex field. Already playing a significant role in the world of business, it looks set to become even more influential in the future. Deployment of optimum communications and IT solutions will become a key competitive factor. As market leader in the Swiss telecommunications sector, Swisscom has been an active player in this development right from the outset. These years of experience mean that we are now able to meet the specific and varied communications requirements of our customers with optimal solutions, irrespective of whether those customers are large corporations or small and medium-sized enterprises.

Whatever the customer's needs – whether Internet services, intranet/extranet, leased lines, voice and data integration or PBXs – the solutions we implement are tailor-made in terms of bandwidth, applications, service quality, use and security. When installing, expanding and operating our customers' corporate networks we offer a comprehensive package of products and services along with a wealth of experience gained from long-standing customer relationships and a highly professional customer care service. As a full-service provider we offer one-stop shopping.

CUSTOMIZED PRODUCTS AND SERVICES – FOR BUSINESSES OF ANY SIZE

Internet-protocol-based networks are in the ascendant in larger companies and are rapidly acquiring strategic significance with regard to e-business and future multimedia applications. But the high overall costs of operating heterogeneous networks, having a high degree of decentralization and using proprietary solutions are also prompting IT service providers, especially in larger firms, to come up with innovative solutions. Last year Swisscom carried out a large number of network projects and provided wide-ranging engineering services on behalf of well-known companies such as Credit Suisse and Winterthur Insurance. So-called 'Light' variants were also developed in many areas as services specially designed for small and medium-sized enterprises, being carefully tailored to their particular requirements and budgetary constraints. Thus, for instance, the IP-Plus® Light Internet service meets the requirement for cost-effective, individualized and efficient solutions in the area of information gathering via Internet. Another product tailored to the needs of SMEs is the newly developed SecurePoP service. This is what is known as a managed firewall service and is designed to provide greater security in corporate networks as they become increasingly vulnerable the more they are opened up to external access.

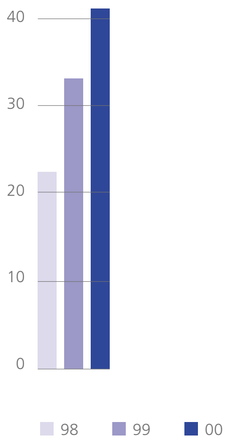
Another example of an innovative and sophisticated e-commerce solution is Swisscom's design, installation and operation of the platform for the lottery operator "Schweizer Zahlenlotto". Swisscom assumed full responsibility for developing the platform as an electronic kiosk and now operates it as well as front and back offices for online marketing. Other highly successful applications of Swisscom services include the e-shop solutions implemented for renowned companies such as Fleurop and Sprüngli. Another feature of this general trend is the outsourcing of corporate networks. In such outsourcing solutions Swisscom assumes responsibility for operating, monitoring and maintaining a company's communications network.

CUSTOMIZED INTRANET AND EXTRANET SOLUTIONS

The intranet, or 'in-house Internet', is a tailor-made company-wide network accessible to all employees. If a company wishes to make its intranet or parts of it accessible to external organizational units such as branch offices, field staff, partners or suppliers, the resultant network is called an extranet. In this area Swisscom offers a comprehensive range of services, of which the most important are:

- LAN Switching Service: we design, implement and operate the entire local area network (LAN), enabling the customer company to concentrate on its core business
- LAN Interconnect Service, which links together the company's various physical sites, thereby raising employee productivity, e.g. by allowing staff to share central databases
- CyberKey, a new security solution from Swisscom which guarantees authenticity and confidentiality in the transmission of customer data.
- Remote Access Service (RAS), which provides external employees with access to the company network from any location and at any time by various means including GSM technology, allowing them to call up the data they need. RAS provides full connectivity to the office.

Swiss market share Bluewin
in %



BLUEWIN – MARKET LEADER IN THE INTERNET

Since 1 May 2000 Bluewin, our Internet service provider, has been operating in the market as an independent company. Bluewin sees itself as an intermediary between the needs of consumers and the products and services offered by companies. In the year 2000 Bluewin customers spent some 420 million minutes on the Internet. With approximately 900,000 registered customers, of which 549,000 are active access customers, and around 70 million pageviews per month, this Swisscom subsidiary remained the market leader in Switzerland, boosting its market share from 33% to 41%. Newly-launched channels such as "Woman" and "Finance" established themselves as popular information platforms. The unrelentingly rapid and dynamic growth in Internet use was reflected in staff levels at Bluewin, which soared from 200 to 300 within a year.

In the business segment Bluewin offers a comprehensive range of products and services. These include solutions such as hosting, e-commerce services and low-end shops. A development of significance for the future is the switch to Internet access using ADSL broadband technology. The ADSL product 'Broadway' has been available in seven Swiss cities since October 2000. This was extended to a further 25 towns in February 2001.

Another large gap in the market was plugged by 'BlueMessenger', a service which sends messages directly from the screen to a mobile phone. In its first month, June 2000, Blue Messenger received some 10,000 registrations.

SUCCESS THROUGH PARTNERSHIPS

To guarantee continued success in the areas of portal services and e-commerce, Bluewin attaches great importance to partnerships. Since April 2000 a strategic partnership with the Tamedia publishing house has ensured an even greater flow of news on the Bluewin portal. With effect from November 2000 Swisscom transferred its stakes in the two directory providers, Swisscom Directories and PubliDirect, to Bluewin. The aim is for Bluewin, in conjunction with its shareholding partner Publigroupe, to use this as the basis for a comprehensive online directory. Since the end of November Bluewin has been operating an extensive e-shopping platform under the name 'Blueprimus'. A joint venture between Bluewin and the German e-commerce market leader Primus Online, 'Blueprimus' sells products such as music CDs, printers, computer games, videos and gift items. The range of products on sale is continually being expanded.

CONEXTRADE – PORTAL TO THE WORLD'S LARGEST B2B MARKETPLACE

Online marketplaces permit efficient business-to-business (B2B) trading via the Internet. Their aim is to optimize procedures for both buyers and sellers of goods and services and to reduce costs. In today's competitive climate, connection to a high-performance electronic marketplace can be a key success factor. In the year under review Swisscom took a leading role in the establishment of B2B portals. conextrade combines all the B2B activities of Swisscom. The comprehensive spectrum of solutions offered by conextrade AG ranges from strategic advice through operation of the preferred solution to complete outsourcing of purchasing activities. By providing access to the Global Trading Web, the world's largest B2B online trading community, conextrade guarantees its customers efficient trading relations within Switzerland and throughout Europe and the rest of the world. Its main business partners include SAP (Switzerland) AG, Commerce One and Accenture.

Conceived from the outset as an open structure, conextrade offers innovative e-business solutions for companies of any size and sector and supports a number of different standards. conextrade focuses on providing a comprehensive service portfolio, speed of implementation and a network of professional partners. The conextrade electronic marketplace is based on a Commerce One solution. The e-business solutions on offer include supplier link-ins and catalogue management via conextrade's own content factory, as well as procurement services, online auctions and calls for tender. conextrade also provides back-up for the construction, operation and integration of electronic portals. Many of its services are multilingual and available as hosting solutions or in the application service provider model.

The number of people employed by this fast-growing company had already reached 55 by the end of 2000. Conextrade's goal is to become the leading B2B marketplace in Switzerland and neighboring countries.

PLENAXX – THE B2B PORTAL FOR SMES

plenaxx.com AG has developed the first fully-integrated B2B portal for small and medium-sized enterprises in Switzerland. Founded in May 2000 as a joint venture between Swisscom, Mobiliar, UBS, Valora and the Schweizerischer Gewerbeverband (Swiss Small Business Association), this company is seeking to become the market leader in the field of comprehensive e-business solutions for the SME segment. Swisscom holds a 24.4% stake in plenaxx.com AG. The portal fulfills the many and varied requirements of its users with regard to information, communications, transactions and collaborative arrangements. Its modular configuration not only provides companies with a comprehensive working environment, but also opens up new opportunities for SMEs in terms of cross-sector co-operation and business activities. Designed as an essentially open platform, it also allows third-party firms to present their services or establish Web communities. Following a highly promising pilot phase, the platform has been available to all Swiss SMEs since the end of January 2001. In future, clubs, associations and schools will also be able to benefit from the services offered by plenaxx.

Driving the pace of progress

By identifying new technologies and market requirements at an early stage and developing high-potential applications in response, we ensure that we continue to set the pace in telecommunications. The roll-out of a number of network innovations in IP and broadband technology in the year under review helped Swisscom to consolidate its position once again at the cutting-edge of telecommunications technology.

MASS OPENS UP A WORLD OF NEW INTERNET SERVICES

In line with our declared goal of becoming market leader in standard services, we launched a campaign under the name MASS (Market Leadership for Standard Services). MASS will modernize Swisscom's telecommunications network and transform it from a traditional, voice-oriented infrastructure into a highly adaptable broadband network. By integrating voice communications and data services, we will create an open future-proof multimedia platform based on the Internet protocol (IP).

This will speed up time-to-market for new services while also ensuring rapid transition to a packet-switched network. At the same time it will pave the way for substantial reductions in long-term operating costs for the telecommunications network.

At the heart of the MASS program is a backbone network permitting packet-switched data transmission and, in the near future, integration of voice communications. The standardized infrastructure for voice and data will open the way to new Internet services, reduce the complexity of the systems involved and cut costs.

Two major sub-projects within the MASS program were successfully completed in 2000. With MASS 99, Swisscom furnishes its top business customers – including Winterthur Insurance, Swiss Post and Credit Suisse – with next-generation IP services. The second project was the launch of our broadband service (BBCS).

INTO THE UMTS FUTURE WITH GPRS

The purchase of a UMTS license in Switzerland was an event of major importance for Swisscom's future. Universal Mobile Telecommunications Systems (UMTS) is the name given to the third generation of mobile communications technology. Thanks to UMTS the mobile phone will be transformed into a multifunctional communications tool which, in future, will make virtually all communications content available from mobile terminals. Initially, UMTS will only be available in urban areas. However, Swisscom Mobile will ensure that customers can also use the same range of services outside towns and cities. The key to achieving this is GPRS, a packet-switched mobile communications technology which allows faster data transmission but can still be set up on the existing GSM network infrastructure. GPRS will probably be available for use on suitably equipped mobile phones with country-wide coverage from mid-2001. A likely scenario is that GPRS and UMTS will both be available in parallel for quite some time. Thanks to dual-mode mobiles (GSM/GPRS and UMTS), Swisscom Mobile customers will not even notice the transition from one mode of operation to the other.

The advent of packet-switched technologies, greater bandwidth and permanent links to the Internet, whether based on GPRS or UMTS, look set to bring about a massive change in mobile telephony, leading to a shift in patterns of use which will increase data traffic volumes. A plethora of data applications will become available, such as messaging/scheduling, e-payment, the downloading of music to a terminal, image transmission or the downloading of video sequences. Whether people make use of such applications and, if so, how much and at what prices, are questions that remain to be answered. Experience with SMS and WAP services, however, suggests that there will be considerable demand for them.

THE COMMUNICATIONS SOCIETY NEEDS DATA HIGHWAYS

The kinds of services and applications which will determine our future require far more powerful means of transmission than the traditional telephone line. For example, six parallel ISDN access lines or a single broadband access are required for a PC video conference to function properly with good image and sound quality.

High-capacity data links are already an indispensable part of modern business life. In 2000 it also became clear that the need for high-capacity data transmission is mounting in the residential segment as well. Internet use is increasing at breakneck speed, and audio and video streaming products aimed at residential customers are becoming par for the course. Judging by the popularity of chatting, we can expect to see a boom in further similar applications. In the sphere of work, employee mobility will prompt ever greater demand for home workstations. Online shopping involving audio sampling or even video-based sales presentations will become a much more attractive option thanks to broadband technology.

With its modern IP network infrastructure covering the whole of Switzerland and the ongoing expansion of the ADSL system into individual access networks, Swisscom is ideally placed to take advantage of the burgeoning demand in these areas.

BROADBAND TECHNOLOGY IN THE MASS MARKET

In October 2000 Swisscom launched its ADSL Broadband Connectivity Service (BBCS). ADSL (Asymmetric Digital Subscriber Line) makes broadband technology available over copper wire lines and thus makes it possible to provide services which are only viable for customers in the mass market if furnished with broadband access. As a first for the European market, we also opened up access to our service for other providers. Telecommunications providers and Internet service providers can now offer their customers a high-capacity connection with a maximum transmission speed of 512 kbit/s.

ADSL technology is a branch of xDSL technology, which uses the existing domestic telephone cables to provide broadband access to the data network. ADSL enables the transmission capacity of copper wire lines to be massively increased: with BBCS, data transfer rates of up to 512 kbit/s are possible from the Internet to a computer, and up to 128 kbit/s from a computer to the Internet. Analog and digital signals can be transmitted simultaneously. Anyone with ADSL access can therefore make a telephone call or send a fax and at the same time surf the Internet at a rate of up to 512 kbit/s.

ENVIRONMENTAL MANAGEMENT AT SWISSCOM

As one of Switzerland's leading companies, Swisscom is mindful of its ecological responsibilities and acts accordingly. Swisscom strives to minimize the negative environmental impact of its corporate operations and to foster areas of business which exert a positive influence on the environment. In its environmental policy guidelines Swisscom makes various undertakings, including to minimize risks, to save resources wherever possible and to develop and offer ecological products and services. We were among the first to sign the Environmental Charter drawn up by ETNO (the trade body of the European Telecommunication Network Operators) and are members of the ÖBU, an association of Swiss companies committed to ensuring that the future development of the domestic economy takes place in accordance with the principle of sustainability. In addition, Swisscom has qualified for certification under ISO 14001 since 1997/98. ISO 14001 is an international standard under the terms of which certified companies are obliged to make continual improvements in environmental matters.

In terms of specific measures implemented in 2000, in the area of electricity consumption, we optimized the air-conditioning in our switching exchanges. These improvements will result in annual savings of between CHF 2 million and CHF 4 million. The introduction of new computer workstations with flat screens will likewise bring energy savings of approximately 5 gigawatt hours per year. Downsizing our company vehicle fleet enabled us to make further reductions in fuel consumption. Furthermore, we presented the world's first environmentally friendly mobile phone – a joint project between Motorola and Swisscom – at the Orbit trade fair. We are also working with other suppliers to optimize other products in ecological terms. New Swisscom services, most notably in the field of e-commerce and e-business solutions, enable our customers to make ecological savings in their infrastructure and in business travel.

The success of our efforts in environmental management is confirmed by the environmental rating given to us by the Munich-based firm Oekom Research. Of the 27 international telecommunications companies assessed by Oekom Research, Swisscom took first place. A further testament to our effective environmental measures is the fact that Swisscom stocks are included in many ecological funds.

Striving for common goals

Swisscom is deeply committed to providing ongoing training for its employees and to identifying and developing up-and-coming management talent. As an employer we take our social responsibilities very seriously: in the year under review our company negotiated a modern collective labor agreement (Gesamtarbeitsvertrag GAV) with the social partners along with a fully developed program of social measures. At the end of 2000 the payroll of the parent company Swisscom comprised the equivalent of 16,431 full-time posts.

STAFF TRAINING AND DEVELOPMENT OF UP-AND-COMING TALENT

The skills and knowledge of the people who work for a company are an indispensable asset. The degree to which the company can achieve a return on that asset depends on its ability to foster knowledge-sharing within the company and to convert it into market-driven performance. At Swisscom we strive to make just as much use of the implicit knowledge of our individual employees – their experiences, insight, intuition and their practical skills – as we do of their explicit knowledge – facts, process know-how, training and qualifications. This is why Swisscom creates tools with which it can optimize knowledge management.

We are committed to developing bright new talent as an investment in the future. In the year under review we completely rethought the way we market ourselves to graduates. Swisscom is present in a wide variety of educational establishments and offers graduates numerous options for starting their careers. With our job forum events held on Swisscom premises and various workshops for students, we have adopted a new approach to recruitment and offer talented youngsters excellent career openings.

In 2000 Swisscom increased its apprentice intake. Around 300 embarked on a course of basic training at the company. By autumn 2001 approximately 900 apprentices will be on the firm's payroll. Swisscom offers professional apprenticeships in information technology, electronic engineering, multimedia trading, media, sales and, as a new addition to the range, electronic communications. As part of the Swiss government's IT training drive our company is also involved in work to formulate new and innovative training solutions and, for instance, is planning to introduce an abridged IT training course for high-school leavers. With this spectrum of measures we offer young people a broad range of introductory and further training options which are fully in line with the requirements of the modern labor market and open up a whole variety of potential career paths. But it is not only young employees who benefit from good training provision at Swisscom. All other employees, too – whether staff or junior and middle management – are offered ongoing training according to their needs. Thus, for example, in the year 2000 approximately 600 members of middle management attended training courses in marketing and finance, over 250 project leaders took part in project management seminars, each spanning several days, and some 400 human resource specialists were given the training necessary to deal with the change to private employment law as per the Code of Obligations.

A LEAN COLLECTIVE LABOR AGREEMENT WITH MODERN COMPONENTS

On 1 January 2001 the new collective labor agreement negotiated with the employee associations came into effect. The GAV positions Swisscom in the Swiss labor market as an attractive employer offering modern terms of employment. The core features of the GAV are a 40-hour week, five weeks' annual leave and a fair performance-related remuneration system which takes due account of market conditions and reflects both the individual's performance and the company's success. The new pay structures have already proved their worth in the 2000–01 round of wage talks.

Swisscom is also blazing trails with its new working-hour models. The telecommunications market is one in which work patterns have to be flexible. The Swisscom models provide exactly that flexibility. They are based on employees taking responsibility for themselves and encourage individuals to find their own working-time solutions. The models introduced include the expanded flexitime option, the popular 'working year' model for areas subject to significant seasonal fluctuations in workload and a 'long-term work account' (whereby overtime, etc., is credited to the account and may be taken at a later date as a kind of mini-sabbatical). The teleworking option enables employees to work some of their time from home. The range of models is rounded off by shiftwork.

CREATING INCENTIVES FOR ALL EMPLOYEES

Another key success factor in business is the degree to which employees identify with company goals. We do everything in our power to ensure that our staff can be proud of Swisscom. Therefore, in addition to the motivation which comes from being involved in such a forward-looking and dynamic industry, Swisscom employees have been given other tangible incentives: in spring 2000 each member of staff received three Swisscom shares, making them all co-owners of the company. In the year under review we also concluded preparatory work on a program to extend the management participation scheme.

PARENT COMPANY PAYROLL 16,431

The changes which Swisscom has been going through were reflected in the fluctuations of total staff numbers. The average for the year for the Swisscom parent company was 17,275 full-time equivalent posts. At end-2000, there were 16,431 full-time equivalents, approximately 10 per cent less than at end-1999. This reduction was in line with the plans announced beforehand. Including subsidiaries, the Swisscom Group employed a total (full-time post equivalent) of 20,604 at end-2000, of whom 3,145 are employed by debitel.

Last year 1,900 people joined the parent company and 3,925 left. One-third of the posts vacated by departing staff were filled. The other new appointments were mainly driven by the need to fill gaps in technical expertise and to underpin expansion in growth areas. The task of finding suitably qualified specialists in the areas of IT, e-business, marketing, product management and project management is becoming much more difficult.

MAKING RESTRUCTURING FAIR

The transformation of Swisscom from the old parent company structure into a group-style organization and the necessary reduction of costs through downsizing and outsourcing have required and continue to require far-reaching restructuring measures. To ensure that this restructuring is implemented fairly and transparently and to minimize disruption and resultant loss within the company, we have formulated and introduced binding standards, including rules of fairness, by which the processes of change can be shaped. A task force made up of experienced specialists is providing line managers and human resource officers with support in the downsizing process as well as monitoring compliance with the standards.

By the end of 2000 a total of 860 Swisscom employees had reached early retirement agreements in accordance with the 1999 and 2000 social plans. 321 members of staff born in 1945 or before agreed to take early retirement under the terms and conditions of the retirement program adopted in June 2000. More than 50 employees took advantage of the scheme to support new business start-ups, opening up new opportunities outside Swisscom. Over the last three years the Swisscom internal labor market center has given advice to more than a thousand individuals and found employment solutions for most.

TRAIL-BLAZING JOINT VENTURE

In order to implement the social plan with a proper degree of joint responsibility, and to ensure that former Swisscom employees receive suitably professional support services to re-enter the labor market, Swisscom and the employee associations, together with Manpower, have established a public-limited company under the name of WORK_LINK. This is the first time that employee associations have taken part in a joint venture with an employment agency and a major company. The joint venture offers the best possible chances of finding temporary and permanent employment for former colleagues aged 50 or above who worked at Swisscom for five years or longer.

Organizational Structure

Board of Directors

Markus Rauh, Chairman

Management

Jens Alder, Chief Executive Officer

Corporate Management Services
Fritz Sutter

Corporate Communications
Stefan Nünlist

Corporate Legal Services
Jürg Rötheli

Strategy & Group Steering
Michael Shipton

Restructuring Controlling
Rainer Titze

Corporate IT
Mauro Santona

Consumer Communications
Adrian Bult

Information Technology
Mauro Santona

Network Services & Wholesale
Reto Held

Bluewin AG
Christoph Brand

Mobile Communications
Carsten Schloter

Conextrade AG
Thomas Flatt

Enterprise Communications
Heinz Karrer

Human Resources
a.i. Paul Bader

debitel AG
Peter Wagner

Finance
Dave Schnell

Status as of 31.1.2001

Board of Directors

Markus Rauh
Chairman, born 1939
Degree in mechanical engineering and doctorate (Dr. sc. tech) from the Swiss Federal Institute of Technology (ETH) in Zurich.
Career: Sperry Univac, Philips, Wild Leitz, CEO of Leica Group, Chairman of the Board of Directors of AGI IT Services AG

Alfred Bissegger
born 1942
Secretary to the Board of Directors, Former deputy general secretary and head of corporate communications, PTT

André Richoz
born 1947
Studied at the Swiss Federal Institute of Technology (ETH) in Zurich, doctorate in physics.
Career: National Scientific Fund, Credit Suisse, Sulzer Group. Since 1990 head of the Charmilles group of companies owned by Georg Fischer AG, CEO of SIKA Group

Felix Rosenberg
born 1941
Studied law at the University of Berne.
Career: Clerk to the local court in Baden/Switzerland, member of cantonal government Thurgau/Switzerland, member of the PTT Executive Board, CEO of Telecom PTT and until end of March 1998 of Swisscom, Chairman of the Board of Directors of Voigt AG, Chairman of the Board of Directors of De Martin AG, representative of the Swiss Confederation.

Peter Küpfer
born 1944
Certified accountant
Career: Revisuisse, Financière CSFB, CS First Boston, CS Holding, Bank Leu AG, Leu Holding, Chairman of the Board of Directors of Valora Holding Ltd.
Since 1997 independent consultant.

Jacqueline Françoise Demierre
born 1954
Diploma in sales management
Career: Berne Telegraph Office, General Directorate of the PTT, Swisscom: Multinational Corporations (MNC), since April 1999 Mobile Com

Franco Ambrosetti
born 1941
Studied business administration in Zurich and Basel (lic. rer. pol.).
Since 1993 Chairman and CEO of Ettore Ambrosetti & Sons Ltd

Helmut Woelki
born 1949
Studied business administration in Frankfurt am Main.
Career: Fegro Handelsgesellschaft, SAS Service Partner, CEO of LSG Lufthansa Service Holding AG. Since 2001, independent consultant to international companies

Rose Gerrit Huy
born 1953
Studied economics and mathematics in Hamburg and Strasbourg.
Career: Daimler-Benz, CEO of Compaq Deutschland GmbH, Chairwoman of the Board of Directors of Beta Research Kirch Group, since 2000 CTO at Kirch Pay TV

Ernst Hofmann
born 1937
St. Gallen School of Transport, apprenticeship as telegraph operator, Zurich Telegraph Office.
Career: Basel Telecoms Center.
Deputy general secretary of the PTT Vereinigung, deputy general secretary of the communications union.
Chairman of the Board of Directors of Sherlock Holmes AG

Executive Board

Jens Alder
Chief Executive Officer of Swisscom AG, born 1957
Studied electrical engineering (Dipl. El.-Ing. ETHZ) at the Swiss Federal Institute of Technology (ETH) in Zurich, MBA INSEAD, Fontainebleau.
Career: Standard Telephone & Radio AG, Alcatel STR AG, Motor Columbus AG, Alcatel Schweiz AG

Dave Schnell
Head of Finance, born 1947
Studied business administration in Switzerland and the United States.
Career: General Electric (USA), DEC, ITT Europe, Elco Looser Holding AG, Telecom PTT

Reto Held
Head of Network Services & Wholesale, born 1946
Studied electrical engineering (El. Ing. HTL) in Chur.
Career: Telecommunications director Chur, regional head of Network Services

Carsten Schloter
Head of Swisscom Mobile, born 1963
Studied business administration and information technology in Paris.
Career: Mercedes Benz France SA, debitel France SA, debitel Deutschland (Stuttgart), Head of Customer Services, Risk Management, IT and Quality Management, Member of the Board of Directors of debitel AG

Adrian Bult
Head of Consumer Communications, born 1959
Studied business administration at the University of St. Gallen
Career: IBM Schweiz, Telecom PTT

Heinz Karrer
Head of Enterprise Communications, born 1959
Studied macroeconomics at the University of St. Gallen.
Career: Union Bank of Switzerland, Association of Swiss Manufacturers, Suppliers and Agents for Sports Goods, Intersport, Ringier AG, Telecom PTT

THE FOLLOWING MEMBERS LEFT THE EXECUTIVE BOARD IN 2000:

Dominik Koechlin
Head of Strategy and International Affairs
(until 31 December 2000)

Jürg Marx
Head of Human Resources
(until 30 September 2000)

Shareholder information

Key figures per share		1999	2000
Average number of shares outstanding	Million	73.55	73.55
Net income (loss) from continuing operations	CHF	30.02	42.04
Net income before amortization of goodwill	CHF	33.69	47.39
Net income (loss)	CHF	32.51	42.98
Dividend, gross	CHF	15.00	11.00[1]
Capital reduction	CHF	–	8.00[1]

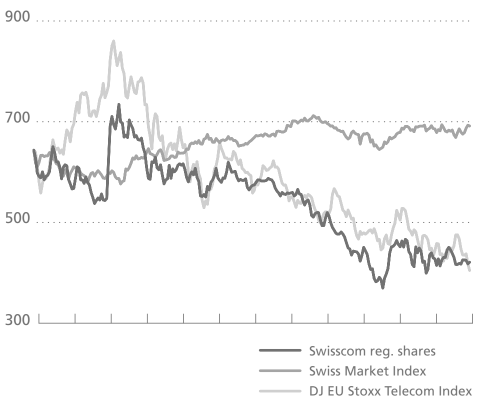
Ratios			
Return on equity	%	44.7	47.3
EBITDA as % of net revenues	%	37.9	28.7
EBIT as % of net revenues	%	22.5	13.0
Dividend return	%	2.3	4.5[1]
Pay-out ratio	%	46.1	44.2

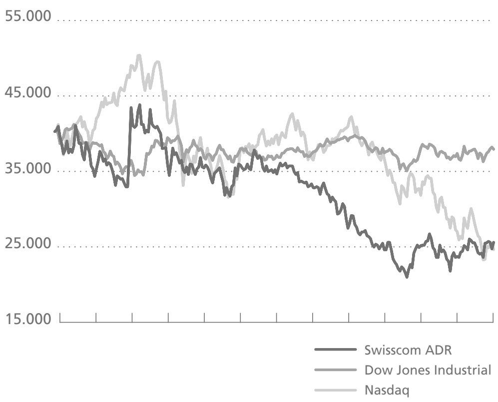
[1] According to the proposal of the Board of Directors to the Shareholders' Meeting

Swisscom registered shares 2000		
Year-end price	CHF	421.50
Year high	CHF	754.00
Year low	CHF	361.00
Total trading volume	shares	44 725 718
Daily average	shares	178 190
Total trading volume	CHF m	25 086.01
Average daily trading volume	CHF m	99.94

Swisscom ADR 2000		
Year-end price	USD	25.625
Year high	USD	44.000
Year low	USD	20.313
Total trading volume	ADR	6 503 200
Daily average	ADR	25 806
Total trading volume	USD m	209.03
Average daily trading volume	USD m	0.83

Source: Bloomberg





Stock exchange	Bloomberg	Reuters	Telekurs
SWX, Zurich, 9.00–17.00	SCMN SW	SCMZn.S	SCMN
NYSE, New York, 9.30 am–4.00 pm	SCM US	SCMZ.N	SCM

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Key dates 2001

10.04.2001 Annual Press Conference, Zurich

11.04.2001 Financial analysts' Meeting, London

17.05.2001 1st quarter 2001 interim report

29.05.2001 General Shareholders' Meeting, Zurich

01.06.2001 Dividend distribution

23.08.2001 Half-yearly report 2001

21.11.2001 3rd quarter 2001 interim report

FINANCIAL REVIEW 2000

swisscom

Key figures

CHF in millions, except where indicated		1999	2000
Swisscom Group			
Net revenue		11 052	14 093
Operating income before depreciation (EBITDA)		4 192	4 039
Operating income (EBIT)		2 488	1 836
Net income from continuing operations		2 208	3 092
Net income		2 391	3 161
Shareholders' equity		6 685	8 592
Equity ratio[1]	%	32.0	38.9
Number of full-time equivalent employees at end of period[2]	FTE	21 777	20 604
Average number of full-time equivalent employees	FTE	20 393	20 989
Revenue per employee[3]	CHF in thousands	542	671
Net cash provided by operating activities		3 366	4 186
Capital expenditures		1 468	1 450
Investments in subsidiaries and affiliated companies		3 333	139
Free cash flow		(1 435)	4 689
Swisscom AG			
Net income		1 828	2 709
Shareholders' equity		6 652	8 330*
Dividend		1 103	809*
Capital reduction. See note 36.		–	588
Key figures per share			
Average number of shares outstanding (at CHF 25.– each)	in mio.	73.550	73.550
Price per share (high/low)	CHF	656.–/445.–	754.–/361.–
Net income from continuing operations	CHF	30.02	42.04
Net income	CHF	32.51	42.98*
Shareholders' equity	CHF	90.89	116.82*
Gross dividend	CHF	15.00	11.00*
Capital reduction. See note 36.	CHF	–	8.00
Pay-out ratio[4]	%	46.13	44.21
Market capitalization at end of period		47 366	31 001

* according to the proposal of the Board of Directors to the Shareholders' Meeting
[1] Represents shareholders' equity as a percentage of total assets.
[2] Includes 2,523 and 3,145 employees of debitel at December 31, 1999 and 2000, respectively.
[3] Excluding debitel, revenue per employee was CHF 538 thousands in 1999 and CHF 555 thousands in 2000.
[4] Represents gross dividend and capital reduction as a percentage of net income per share.

Review of the Group's results

Review of the Group's results

Swisscom's revenue increased by 27.5% to CHF 14,093 million from 1999 to 2000. The growth was due to the first time full consolidation of debitel. Excluding this effect, revenue remained relatively stable whereas the development of the various segments was different. Mobile Com and Wholesale/Carrier Services increased revenue by 21.4% and 56.8% respectively, while Public Com reported a 18.6% decrease in revenue as a result of sharp reductions in tariffs and a loss of market share.

Operating income (EBIT) fell 26.2% year-on-year to CHF 1,836 million, primarly as a result of the significant decline in margins in the Public Com segment.

Proceeds from the disposal of shareholdings (Cablecom, D Plus, tesion and others) generated income of CHF 1,739 million. As a result of these one-off transactions and a positive financial result, net income rose 32.2% to CHF 3,161 million.

In November 2000 Swisscom entered into an agreement with Vodafone plc for the sale of 25% of the equity of the Swisscom mobile business for CHF 4,500 million. Consideration will be paid either in cash or in Vodafone shares. The first instalment of CHF 2,200 million is payable when the transaction is closed and the remaining CHF 2,300 million is to be paid within 12 months of the close. It is expected that the sale will be completed by the end of March 2001 and Swisscom expects to record a significant gain.

Net revenue/ Segment reporting

	Net revenue			Operating result (EBIT)[1]		
CHF in millions	1999	2000	Change	1999	2000	Change
Public Com	4 968	4 042	–18.6%	1 399	677	–51.6%
Mobile Com	2 346	2 847	21.4%	1 290	1 192	–7.6%
Business Com	1 452	1 383	–4.8%	29	(8)	–127.6%
Wholesale and Carrier Services	752	1 179	56.8%	501	432	–13.8%
debitel	922	3 993	333.1%	30	127	323.3%
Other revenue	612	649	6.1%	155	55	–64.5%
Total net revenue	**11 052**	**14 093**	**27.5%**			

[1] Before goodwill amortization.

As a result of a re-organisation, the segments were redefined in 2000. Prior year figures have been restated to reflect the new structure. debitel has been fully consolidated since October 1, 1999.

Public Com

CHF in millions	1999	2000	Change
Access	1 384	1 393	0.7%
National traffic revenue	1 970	1 457	–26.0%
Outgoing international traffic revenue	781	352	–54.9%
Value-added services	284	366	28.9%
Customer premises equipment	245	228	–6.9%
Other revenue	304	246	–19.1%
Total net revenue	**4 968**	**4 042**	**–18.6%**

Traffic volume in million minutes	1999	2000	Change
Local area traffic	10 926	10 884	–0.4%
National long-distance traffic	5 023	3 338	–33.5%
Other national traffic	900	1 052	16.9%
Total national traffic	**16 849**	**15 274**	**–9.3%**
Outgoing international traffic	1 386	1 306	–5.8%
Traffic from value-added services	3 682	7 264	97.3%

Number of channels at period end in thousands	1999	2000	Change
PSTN channels	3 622	3 381	–6.7%
ISDN channels	1 370	1 776	29.6%
Total access channels	**4 992**	**5 157**	**3.3%**

Access revenue remained stable compared with the previous year. As a result of the continued growth of the ISDN Light product, the number of ISDN channels increased by 29.6%. The decrease in PSTN lines is a result of customers upgrading from PSTN to ISDN.

To increase competitiveness, in 2000 Swisscom reduced its tariffs by up to 70% for long-distance and international fixed-network telephony traffic. There was intense competition in the market as our competitors gained market share primarily in the long-distance and international traffic areas. Swisscom expects 2001 to be another year of intense competition, with tariffs coming under further pressure.

As of October 1, 1999, the local area was extended at the expense of the long-distance area. This was the main reason for the sharp decline in long-distance traffic. As a result of the growth in the number of mobile phone users, traffic in other network areas (mainly 'fixed to mobile') increased by 16.9%.

Value-added services traffic increased by 97.3%, primarily due to rapid growth in Internet use. However, the average revenue per minute declined as the volume increase related to the lowest tariff traffic. As a result revenue growth was disproportionately low at 28.9%.

Public Com recorded operating income before tax and interest (EBIT) of CHF 677 million, representing a decline in 2000 of 51.6%. Cost reductions were not sufficient to compensate for the decline in revenue because of the high proportion of fixed costs in fixed-network telephony (e.g. infrastructure costs and depreciation).

Review of the Group's results

Mobile Com

2000 was a year of rapid growth in the Swiss mobile communications market, with market penetration increasing from 42% to 64%. Swisscom participated fully in this growth, with an increase in revenue of 21.4% to CHF 2,847 million. There was a net increase in the number of customers of 886,000 to 3,168,000, representing a 38.8% growth rate for the year. The number of postpaid customers reached 1,939,000 (+39.3%), while the number of prepaid customers (Natel easy) increased to 1,229,000 (+38.1%).

Average monthly revenue per customer fell by 12.2% to CHF 72, primarily as a result of the tariff reductions introduced in June and November 1999. Average monthly traffic per customer declined by 1.2% to 84 minutes. Increased revenue from roaming agreements also contributed to growth. Revenue from Swisscom customers outside Switzerland and from foreign customers using the Swisscom network increased 39.1% to CHF 693 million. In 2000, approximately 651 million SMS messages were sent, a three-fold increase on the previous year.

Mobile Com's operating income (EBIT) decreased by 7.6% to CHF 1,192 million. The EBIT margin fell from 45.3% to 34.8%. This was largely a result of higher customer acquisition costs due to competition in the market. EBIT was also adversely affected by higher depreciation charges due to a reduction in the useful lives of equipment to take account of technological advancements.

Given the current high level of penetration in mobile telephony, Mobile Com's revenue is anticipated to flatten out in 2001. In December 2000, Swisscom purchased a UMTS license for Switzerland for CHF 50 million. Work on building the UMTS network will begin in 2001. Investment costs over the next few years are anticipated to exceed CHF 1,000 million.

Business Com

CHF in millions	1999	2000	Change
Managed network services	568	551	–3.0%
Corporate communications solutions	138	189	37.0%
Voice communication equipment	609	534	–12.3%
Other revenue	137	109	–20.4%
Total net revenue	**1 452**	**1 383**	**–4.8%**

Revenue from Managed Network Services was relatively stable compared to the previous year. Strong competition in the market led to tariff reductions in August 2000. The resultant decline in revenue was partially compensated by an increase in demand for higher bandwidths.

Corporate Communications Solutions achieved strong growth in both its LAN-interconnect and IP-plus businesses. Revenue in this area increased by 37% to CHF 189 million. Swisscom expects further growth in this area, especially in customized communications solutions.

Revenue from the sale, rental and maintenance of private branch exchanges fell 12.3% to CHF 534 million. In particular, revenue related to the larger private branch exchanges decreased significantly as there was strong demand in the previous year because of the millennium. In addition, the number of exchanges rented declined. Swisscom expects revenue from this area to decline further in 2001.

Operating income for Business Com decreased by CHF 37 million in 2000 compared to 1999 resulting in a loss of CHF 8 million. Operating income was adversely affected by the set-up costs for IP platforms (Internet-protocol-based networks) and e-commerce solutions.

Wholesale and Carrier Services

CHF in millions	1999	2000	Change
Wholesale (national)	260	508	95.4%
Wholesale (international)	130	142	9.2%
Total Wholesale	**390**	**650**	**66.7%**
International Carriers' Carrier Services	362	529	46.1%
Total net revenue	**752**	**1 179**	**56.8%**

Wholesale national revenue increased significantly primarily due to an increase in the traffic generated by other telecommunications companies in the market using the Swisscom network under the terms of interconnection agreements. Swisscom expects traffic volume and revenue to continue to increase in wholesale national business.

There are two different trends in International Carriers' Carrier Services. International tariffs are falling due to increased competition as a result of market liberalization. However, mobile traffic increased in 2000 as a result of the so-called 'tromboning effect', whereby competitors send traffic destined for the Swisscom mobile network back to Switzerland via a foreign carrier at rates lower than if they had sent the traffic directly to the Swisscom mobile network. Swisscom, with other carriers, introduced a 'mobile surcharge' on this kind of traffic and as a result revenue increased. However, such revenue is expected to fall in 2001.

Tariff reductions in the regulated business led to a reduction of the EBIT margin from 31.9% to 17.0%.

debitel AG

On October 1, 1999, Swisscom acquired 74.2% of debitel AG, Germany's largest network-independent service provider in mobile communications. At the same time Swisscom concluded a put and call option for a further 20% stake. In January 2001 DaimlerChrysler Services AG exercised its put option for 10% for CHF 468 million. A significant amount of the purchase price will be allocated to goodwill. For the purposes of comparison, debitel's figures have been restated to conform with Swisscom's accounting policies for the whole of 1999 and 2000 and are presented in the table below.

Income statement

CHF in millions	1999	2000	Change
Net revenue	3 162	3 993	26.3%
Operating expenses	3 050	3 866	26.8%
Operating income (EBIT)[1]	112	127	13.4%
Net income	**45**	**73**	**62.2%**

[1] Excludes goodwill amortization.

Number of subscribers

In thousands	1999	2000	Change
Germany:			
Mobile	2 771	5 991	116.2%
Fixed-line, Internet	326	383	17.5%
International	1 596	2 231	39.8%
Total	**4 693**	**8 605**	**83.4%**

debitel's revenue grew by 26.3% to CHF 3,993 million. Excluding the currency translation effect, this represented an increase of 32%. This strong growth was due principally to an increase in subscribers. The level of market penetration in Germany increased by 30 percentage points to 58%. debitel posted a disproportionately high level of growth in Germany and achieved a market share of 14%. The company's customer base in Germany grew by 116.2% to 5,991,000 with the majority of the increase relating to prepaid subscribers.

In addition to its home market, Germany, debitel has operations in the Netherlands, France, Denmark and Slovenia. In these markets too, the company achieved a significant expansion in its customer base. Total growth in subscribers was 39.8%.

Review of the Group's results

Despite increased customer acquisition costs, operating income increased by 13.4% compared to the prior year.

Following its decision to withdraw from the UMTS auction in Germany, debitel intends to expand its existing business model to UMTS and market its mobile communications services as an ESP (enhanced service provider). In November 2000 debitel signed a letter of intent with Mannesmann Mobilfunk (D2 Vodafone) aimed at future collaboration on UMTS, enabling debitel to act as a reseller for UMTS products.

Other revenue

CHF in millions	1999	2000	Change
International activities	92	133	44.6%
bluewin AG[1]	36	47	30.6%
Broadcasting	194	209	7.7%
Other revenue	290	260	–10.3%
Total net revenue	**612**	**649**	**6.1%**

[1] Excludes traffic-related revenue which is recorded within Value-added services in Public Com.

The increase in revenue from international activities was due primarily to the growth in wholesale revenue generated by the Group's US subsidiary.

bluewin AG increased the number of subscribers from 307,000 in 1999 to 550,000 in 2000. Operating income of CHF 55 million recorded under the segment 'Other' was adversely affected by start-up losses totaling CHF 60 million relating to bluewin and conextrade.

Operating expenses

CHF in millions	1999	2000	Change
Goods and services purchased	1 462	1 878	28.5%
Personnel expenses	2 472	2 297	–7.1%
Other operating expenses	2 117	2 146	1.4%
Depreciation and amortization	1 611	1 841	14.3%
Total operating expenses excluding debitel	**7 662**	**8 162**	**6.5%**
debitel	976	4 187	329.0%
Total operating expenses	**8 638**	**12 349**	**43.0%**

Total operating expenses were 43% higher than in the previous year due to the fact that debitel was first consolidated from 1 October 1999. Excluding debitel, operating expenses were 6.5% higher than the prior year. The following analyses are based on the figures excluding debitel.

Goods and services purchased

Of the total increase in cost of goods and services purchased, CHF 279 million relates to payments to other providers for traffic terminating on their networks. These payments increased as the number of providers in the telecommunications market grew. In addition, charges for international traffic increased by CHF 207 million as a result of the introduction of mobile surcharges and the growth in revenues from roaming agreements at Mobile Com. These effects more than offset the reduction in outgoing international traffic costs.

Personnel expenses and number of employees

In non-core operational areas, employee numbers were systematically reduced. There was a 9.3% decrease to 17,459 full-time equivalent employees. Personnel expenses fell by 7.1% to CHF 2,297 million. This includes a charge of CHF 122 million (compared to CHF 249 million in 1999) for termination benefits as a result of the agreement concluded with the unions covering early retirement, early leave and outplacement programs. In 2000 costs were incurred in connection with 872 employees who entered these programs (1,822 employees in 1999). Swisscom intends to further streamline its operations in 2001 and this will lead to further employee reductions and related costs.

Other operating expenses

Total dealer commissions, handset subsidies, advertising and promotion expenses increased 71.6% to CHF 633 million primarily as a result of the strong growth in customer numbers and intense competition in mobile communications. This increase was offset by a decrease of CHF 231 million of other operating expenses.

IT expenses decreased by CHF 83 million to CHF 334 million, as a result of lower operating costs and the discontinuation of spending on the millennium project. As a result of savings in maintenance and lower equipment rentals to customers, repairs and maintenance expenses decreased by CHF 66 million to CHF 286 million. In addition, rental costs were reduced by CHF 33 million.

The phasing out of certain obsolete technology resulted in losses on disposal of CHF 128 million in 2000.

Financial expense and financial income

In 2000 Swisscom recorded net financial income of CHF 161 million, an improvement of CHF 200 million compared to 1999. Net debts were reduced by CHF 3.4 billion in the year under review.

A cross-border tax lease transaction generated net income of CHF 214 million, a similar transaction in 1999 generated net income of CHF 108 million. A gain of CHF 80 million in connection with the transfer of an 8% share in Bluewin to tamedia also contributed to the positive result. The sale of shares in Infonet Services Corp. generated net income of CHF 32 million.

Income tax expense

Swisscom's effective tax rate increased from 21.8% to 32.0% in 2000 compared to 1999 primarily as a result of the amortization of goodwill of debitel which is not tax deductible.

Equity in net income of affiliated companies

In 2000 Swisscom disposed of its shares in Cablecom, tesion and D Plus realizing gains after tax of CHF 1,335 million, CHF 119 million and CHF 197 million, respectively. Equity in net loss including goodwill amortization of UTA Telekom AG in Austria was CHF 87 million.

Financing

Investments in fixed assets and the payment of the dividend from 1999 were paid out of net cash generated from operating activities of CHF 4,186 million. In addition, net debt was significantly reduced. Sales of investments resulted in cash inflows of approximately CHF 1,800 million.

In 2000 Swisscom repaid a Swiss Post loan of CHF 1,200 million and a short-term loan for the acquisition of debitel of CHF 1,700 million. As a result of the proposed sale of real estate and Vodafone's purchase of a stake in Mobile Com, Swisscom expects significant cash inflows in 2001.

Capital expenditure

Total capital expenditure remained stable in 2000 at CHF 1,450 million.

In mobile telephony, investment was concentrated on extending the GSM network and building up GPRS, which is planned for 2001. As Swisscom acquired a Swiss UMTS license, work on the UMTS network will begin in 2001. It is expected that over CHF 1 billion will be invested in building up the network over the next few years.

In the fixed-line network, investments were made setting up a broadband infrastructure and migrating from today's mainly voice-oriented network to an IP-based multi-service network. In 2001 this area of investment will become considerably more important as a result of the high demand for broadband services. Installation of fiber-optic backbone and regional networks is planned in the area of transportation networks in 2001.

Outlook for 2001

In 2001, Swisscom will continue to operate in a highly competitive market environment. Swisscom plans to maintain its position as market leader as a full-service telecommunications provider and plans to expand its position in selective areas. The growth rate is expected to slow down in the Swiss mobile market. The pressure on margins will continue in fixed-network and mobile.

In Germany – debitel's most important market – growth will also slow down. debitel continues to strive to grow faster than the market as a whole. Having signed a letter of intent with Mannesmann Mobilfunk (D2 Vodafone), debitel is negotiating a contract with D2, which will enable debitel to resell UMTS products in the future. Discussions with other UMTS license holders are under way.

Overall Swisscom expects to see a slight increase in revenue in 2001. Pressure on margins will persist in 2001, with the effect that operating income (EBIT) will be significantly lower than in 2000.

In March 2001, Swisscom entered into an agreement to sell 28 of its business and office premises for CHF 1,272 million. The transaction is expected to close in April 2001. Negotiations are also underway in respect of the sale of a further 162 buildings. If concluded successfully, Swisscom expects to record a significant gain on disposal.

Successful completion of the transaction with Vodafone in respect of the sale of a 25% stake in Swisscom Mobile AG is also expected to generate substantial net income in 2001.

As a result of these one-off transactions, net income is expected to increase in 2001 compared to 2000, despite lower operating income.

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 (statement of operations, balance sheet, cash flow statement, statement of shareholders' equity and notes on pages 86 to 88) of Swisscom AG and subsidiaries for the year ended December 31, 2000.

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

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

In our opinion, the consolidated financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Accounting Standards (IAS) and comply with Swiss 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, 2001

Consolidated statement of operations

CHF in millions, except per share amount	Note	1999	2000
		Year ended December 31	
Net revenue	3	**11 052**	**14 093**
Capitalized cost	4	74	92
Total		**11 126**	**14 185**
Goods and services purchased	5	1 916	4 439
Personnel expenses	6,7,8	2 520	2 507
Other operating expenses	9	2 498	3 200
Depreciation and amortization		1 704	2 203
Total operating expenses		**8 638**	**12 349**
Operating income		**2 488**	**1 836**
Financial expense	10	(259)	(329)
Financial income	11	220	490
Income before income taxes, equity in net income of affiliated companies and minority interest		**2 449**	**1 997**
Income tax expense	12	(535)	(640)
Income before equity in net income of affiliated companies and minority interest		**1 914**	**1 357**
Equity in net income of affiliated companies	13	301	1 749
Minority interest		(7)	(14)
Net income from continuing operations		**2 208**	**3 092**
Discontinuing operations	35	183	69
Net income		**2 391**	**3 161**
Basic earnings per share	14		
– on continuing operations		30.02	42.04
– on discontinuing operations		2.49	0.94
– net income		32.51	42.98
Diluted earnings per share	14		
– on continuing operations		29.98	42.00
– on discontinuing operations		2.49	0.94
– net income		32.47	42.94

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

Consolidated balance sheet

CHF in millions	Note	Year ended December 31 1999	2000
Assets			
Current assets			
Cash and cash equivalents	15	1 211	2 265
Securities available for sale	16	65	67
Trade accounts receivable	17	2 648	2 603
Inventories	18	240	256
Other current assets	19	809	1 031
Total current assets		**4 973**	**6 222**
Non-current assets			
Property, plant and equipment	20	10 723	9 946
Investments in affiliated companies	21	713	512
Goodwill and other intangible assets	22	3 339	3 047
Other financial assets	23	1 112	2 337
Deferred tax assets	12	58	51
Total non-current assets		**15 945**	**15 893**
Total assets		**20 918**	**22 115**
Liabilities and shareholders' equity			
Current liabilities			
Short-term debt	24	4 049	2 685
Trade accounts payable		1 265	1 540
Current tax liabilities	12	457	519
Accrued pension cost	8	384	238
Accrued liabilities	25	264	198
Other current liabilities	26	1 476	1 763
Total current liabilities		**7 895**	**6 943**
Long-term liabilities			
Long-term debt	24	3 073	1 822
Finance lease obligation	28	637	2 072
Accrued pension cost	8	1 864	1 687
Accrued liabilities	25	507	546
Deferred tax liabilities	12	23	223
Other long-term liabilities	27	203	169
Total long-term liabilities		**6 307**	**6 519**
Total liabilities		**14 202**	**13 462**
Minority interest		**31**	**61**
Shareholders' equity			
Share capital	29	1 839	1 839
Additional paid-in capital		2 395	2 395
Retained earnings		2 466	4 581
Treasury stock		(1)	(1)
Unrealized market value adjustment on securities available for sale	16	–	2
Cumulative translation adjustment		(14)	(224)
Total shareholders' equity		**6 685**	**8 592**
Total liabilities and shareholders' equity		**20 918**	**22 115**

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

Consolidated cash flow statement

CHF in millions	1999	2000
	Year ended December 31	
Income before income taxes, equity in net income of affiliated companies and minority interest	**2 449**	**1 997**
Adjustments for:		
Depreciation and amortization	1 704	2 203
Loss on disposal of fixed assets, net	176	99
Financial expense	259	329
Financial income	(220)	(490)
	4 368	**4 138**
Changes in operating assets and liabilities, net of effects of acquisitions and disposals of subsidiaries:		
(Increase) decrease in trade accounts receivable	(9)	51
Increase in inventories	(6)	(16)
Decrease (increase) in other assets	(501)	289
(Decrease) increase in trade accounts payable	35	286
Increase (decrease) in other current and accrued liabilities	(159)	151
Decrease in other long-term liabilities	(51)	(38)
Decrease in accrued pension cost	(65)	(391)
Cash generated from operations	**3 612**	**4 470**
Interest paid	(265)	(157)
Income taxes paid	(135)	(398)
Interest received	34	45
Dividends received	12	12
Gain from cross-border tax lease transactions	108	214
Net cash provided by operating activities	**3 366**	**4 186**
Cash flows from investing activities:		
Capital expenditures	(1 468)	(1 450)
Proceeds from sale of fixed assets	44	102
Acquisition of subsidiaries, net of cash acquired	(3 296)	–
Investments in affiliated companies	(8)	(113)
Proceeds from sale of affiliated companies	–	1 734
(Purchase) sale of securities available for sale, net	(21)	21
Purchases of other investments	(29)	(26)
Proceeds from sale of other investments	47	41
Loans receivable repaid (granted) and other financial assets, net	(199)	116
Proceeds from sale of discontinuing operations	178	77
Other cash flow from investing activities, net	(49)	1
Net cash (used in) provided by investing activities	**(4 801)**	**503**
Cash flows from financing activities:		
Issuance (repayment) of short-term debt	2056	(1 623)
Issuance of long-term debt	157	11
Repayment of long-term debt	(516)	(1 229)
Net proceeds from financing of cross-border tax lease arrangements. See note 28.	–	309
Purchase (sale) of treasury stock and call options	(1)	(1)
Dividends paid	(809)	(1 103)
Other cash flow from financing activities, net	–	5
Net cash provided by (used in) financing activities	**887**	**(3 631)**
Net (decrease) increase in cash and cash equivalents	**(548)**	**1 058**
Cash and cash equivalents at beginning of year	1 759	1 211
Translation adjustments	–	(4)
Cash and cash equivalents at end of year	**1 211**	**2 265**

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

Significant non-cash transactions

In 2000 Swisscom entered into an agreement with tamedia AG, whereby tamedia received 8% of the shares in bluewin AG and in return bluewin AG received shares in various subsidiaries of tamedia. No cash was transferred. Swisscom recorded a gain of CHF 80 million under financial income in 2000. See note 11.

During 2000, Swisscom entered into a cross-border tax lease arrangement, in which CHF 1,446 million was not defeased as part of the transaction. See note 28.

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, 1998	**1 839**	**2 282**	**1 223**	**–**	**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
Effect of adopting IAS 19 (revised). See note 8.	–	–	(339)	–	–	–	(339)
Balance at December 31, 1999	**1 839**	**2 395**	**2 466**	**(1)**	–	**(14)**	**6 685**
Unrealized market value adjustment on securities available for sale	–	–	–	–	2	–	2
Translation adjustments	–	–	–	–	–	(210)	(210)
Gain (losses) not recognized in statement of operations	–	–	–	–	2	(210)	(208)
Net income	–	–	3 161	–	–	–	3 161
Dividend paid	–	–	(1 103)	–	–	–	(1 103)
Effect of adopting IAS 37. See note 25.	–	–	56	–	–	–	56
Sale of call options	–	–	1	–	–	–	1
Purchase of treasury stock. See note 7 and 29.	–	–	–	(35)	–	–	(35)
Sale of treasury stock See note 7 and 29.	–	–	–	35	–	–	35
Balance at December 31, 2000	**1 839**	**2 395**	**4 581**	**(1)**	**2**	**(224)**	**8 592**

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 telecommunication services in Switzerland, offering a comprehensive range of services to residential and business customers. Swisscom's major lines of business include; Public Com, which comprises primarily national and international fixed-line voice telecommunications; Mobile Com, which comprises mobile telephony and other mobile telecommunications services; Business Com, which comprises primarily leased lines and managed bandwidth services and integrated corporate communications solutions; and Wholesale and Carrier Services, which comprises a range of Wholesale network services which Swisscom offers to other national and international telecommunications providers. In October 1999, Swisscom acquired 74.2% of the shares of debitel AG, the largest network-independent mobile service provider in Germany. debitel focuses primarily on selling standardized products and services for private customers as well as small- and medium-sized business customers in the mobile communications market. In January 2001, Swisscom acquired a further 10% of the shares of debitel. Swisscom AG is a stock corporation incorporated in Switzerland, domiciled in Ittigen (Berne), and is 65.5% owned by the Swiss Confederation (Confederation).

Relationship with the Confederation

The Confederation is the majority shareholder of Swisscom. The "Telekommunikationsunternehmungsgesetz" (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 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 aggregate, the departments and agencies of the Confederation comprise one of Swisscom's largest customers.

In providing services to the departments and agencies of the Confederation, Swisscom deals with them as 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 the votes.

Investments and joint ventures where Swisscom exercises significant influence but does not have control are accounted for using the equity method. Under the equity method, investments are disclosed as investments in affiliated companies and 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 decline, which is other than temporary.

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 and other intangible assets

Differences between the purchase price of acquisitions and the fair value of net assets acquired are classified as goodwill from acquisitions. Goodwill is amortized on a straight-line basis over the estimated useful life of 5 to10 years.

On January 1, 2000 Swisscom adopted IAS 38 (Intangible Assets) and capitalized internally generated intangible assets for the first time. Such assets, which comprise primarily computer software development costs, are capitalized and amortized using the straight-line method over their estimated useful life of 3 years. Generally, costs associated with developing or maintaining computer software programmes are recognized as an expense as incurred. However, costs that are directly associated with identifiable and unique software products controlled by Swisscom and have probable future economic benefits are recognized as intangible assets. Applying the transitional provisions of IAS 38, prior periods have not been restated.

Expenditure which enhances or extends the performance of computer software programmes beyond their original specifications is recognized as a capital improvement and added to the original cost of the software.

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

Foreign currency translation

Transactions denominated in foreign currencies are recorded at the rate of exchange prevailing at the date 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 and fair value adjustments arising on the acquisition of foreign entities are treated as assets 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 value and are comprised of marketable equity securities and bonds. 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	5–10
Broadcasting equipment	8–10
Vehicles	5–7
Machinery, office and auxiliary equipment	4–15
EDP equipment	3–5
Software for technical equipment	3

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

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 transmitter stations and to restore the property owned by third parties on which the stations are situated. Prior to the adoption of IAS 37 on January 1, 2000, the estimated costs were accrued over the life of the stations. As a result of adopting IAS 37, Swisscom calculated the total provision required, discounted to its present value, and recorded the cost and the accumulated depreciation at January 1, 2000, under property, plant and equipment.

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 on income is zero.

Stock-based compensation
Compensation cost for shares issued to employees, Executive Board and Board of Director members is measured at the date of transaction as the excess of the quoted market price of Swisscom's stock over the purchase price. Until December 31, 1999 these costs were charged directly to equity in the period of issuance. Swisscom changed its policy effective January 1, 2000 to recognize these costs as personnel expenses in the period the distribution is approved. 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".

Termination benefits

Costs relating to special termination plans for the reduction of excess staffing are recorded in the period management commits itself to a plan and it is probable that a liability has incurred and the amount can be reasonably estimated.

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. Other derivative financial instruments are initially recognized in the balance sheet at cost and are remeasured at their fair value, 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 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. In 2000 Swisscom adopted IAS 37 – Provisions, Contingent Liabilities and Contingent Assets. In accordance with IAS 37 the comparative financial statements for the year ended December 31, 1999 have not been restated.

3 Net revenue

CHF in millions	1999	2000
Public Com	4 968	4 042
Mobile Com	2 346	2 847
Business Com	1 452	1 383
Wholesale and Carrier Services	752	1 179
debitel	922	3 993
Other revenue	612	649
Total net revenue	**11 052**	**14 093**

4 Capitalized cost

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

5 Goods and services purchased

CHF in millions	1999	2000
Raw material, supplies and services purchased	120	51
Customer premises equipment purchased for resale	516	1 129
National traffic fees	153	432
International traffic fees	702	860
Network fees for debitel and other international subsidiaries	377	1 915
Services purchased from affiliated companies	48	52
Total goods and services purchased	**1 916**	**4 439**

International traffic fees represent settlement payments to foreign operators for carrying outgoing international traffic and providing roaming services to Swisscom mobile customers using their handsets in foreign countries.

6 Personnel expenses

CHF in millions	1999	2000
Salaries and wages	1 801	1 894
Termination benefits	249	122
Social security expenses	138	151
Pension cost	255	207
Employee stock ownership program. See note 7.	–	40
Other personnel expenses	77	93
Total personnel expenses	**2 520**	**2 507**

Termination benefits

In 1999 and 2000, Swisscom took various steps to reduce the number of employees that resulted in incurring CHF 249 million of expenses in 1999 and a further CHF 122 million in 2000. The charge includes enhanced pension benefits from an early retirement program, an early leave program and an outplacement program.

The costs of the program include the following:

CHF in millions	1999	2000
Early retirement program	147	83
Early leave program	44	10
Outplacement program	65	29
Revision of prior provision	(7)	–
Total termination benefits	**249**	**122**

In 1999 Swisscom established 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 in 1999 represents the increase in the pension liability to cover the additional years of service to enable the employees to receive full pension benefits and to cover the pension payments from the early retirement date to the regular retirement date. The liability is included as part of the accrued pension liability. See note 8. The number of employees that accepted the offer was 573 in 1999, and 448 left Swisscom by the end of 2000 with the majority of the remaining employees leaving in 2001 and a small portion in 2002.

In 1999 Swisscom also established an involuntary early leave program and outplacement program for certain employees that were not eligible to participate in the early retirement program. Under this plan, employees had the option to leave Swisscom and be paid through December 31, 2000, the early leave program, or leave their current job and enter the outplacement program. Under the early leave program, 315 employees left Swisscom in 1999. In the outplacement program, which can be for up to three years, the employees are 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 were 934 employees that participated in this program in 1999 of which 159 employees had left Swisscom by the end of 1999 and 116 employees by the end of 2000. The amount of the expense represents the cost that is expected to be incurred relating only to those employees that are not expected to continue working with Swisscom.

In 2000, Swisscom offered a further 287 employees the early retirement program under the same terms as established in 1999 and recorded an expense of CHF 83 million. The majority of these employees will leave Swisscom by the end of 2001. In addition, a further 154 employees entered the early leave program and 535 employees participated in the outplacement program in 2000.

7 Stock based compensation

Stock issuance

In March 2000, the Board of Directors approved the issuance of three free shares to its employees. 55’598 shares were issued in April 2000. The related cost of CHF 40 million, including social security expenses of CHF 5 million, has been recorded within personnel expenses.

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 are 23,276 shares issued to employees under a SuperShare 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.

In 2000 the Company issued an additional Leveraged Executive Asset Plan ("LEAP") to its Board of Directors. Each LEAP provides stock appreciation rights whereby if the market price of a share during the exercise period is equal to or greater than the base appreciation price during the exercise period, the participant will receive additional shares. Each LEAP vests immediately at grant date.

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

	1999	2000
At beginning of year	265 559	256 236
Granted	–	3 210
Lapsed	(9 323)	(5 782)
At end of year	**256 236**	**253 664**

Vested appreciation rights totaled 131,487 rights at December 31, 1999 and 169,956 rights at December 31, 2000. All rights issued in conjunction with Swisscom's public offering in October 1998 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.

Effective December 31, 1998, Swisscom settled the majority of its outstanding pension liability for retired employees with the "Pensionskasse des Bundes" (PKB). 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.

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 November 30, 2000. 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" at January 1, 1999 resulted in an increase in the accrued pension cost. The main reasons for the increase in accrued pension cost were 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.

Net periodic pension cost includes the following components:

CHF in millions	1999	2000
Service cost on benefits earned	171	147
Interest cost on projected benefit obligation	234	254
Expected return on plan assets	(152)	(202)
Past service cost	14	8
Final settlement of the guarantee from the Confederation	(12)	–
Net periodic pension cost before curtailment and special termination benefits	**255**	**207**
Curtailment and special termination benefits	147	83
Net periodic pension cost	**402**	**290**

The curtailment and special termination benefits have been recorded under personnel expenses as termination benefits and represent increased pension benefits to employees who accepted voluntary early retirement offers.

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

CHF in millions	1999	2000
Amounts recognized in the balance sheet:		
Present value of funded obligations	5 754	6 259
Fair value of plan assets	(3 419)	(3 941)
Benefit obligation in excess of plan assets	**2 335**	**2 318**
Unrecognized actuarial gains (losses)	25	(289)
Unrecognized prior service cost	(112)	(104)
Liability in the balance sheet	**2 248**	**1 925**

CHF in millions	1999	2000
Movement in the liability recognized in the balance sheet:		
At beginning of year		
As previously reported	1 851	2 248
Effect of adopting IAS 19 (revised)	452	–
As restated	2 303	2 248
Net periodic pension cost[1]	414	290
Contributions paid	(469)	(624)
Acquisitions	–	11
At end of year	**2 248**	**1 925**
Less current portion	(384)	(238)
Long-term accrued pension cost	**1 864**	**1 687**

[1] Excluding final settlement of the guarantee from the Confederation of CHF 12 million in 1999.

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

	1999	2000
Discount rate	4.5%	4.25%
Rate of increase in future compensation levels	3.0%	3.0%
Expected long-term rate of return on plan assets	5.0%	5.5%

The actual return on plan assets was CHF 50 million and CHF 275 million in 2000 and 1999, respectively. The pension plans outside of Switzerland are insignificant.

9 Other operating expenses

CHF in millions	1999	2000
Rent	197	152
Repairs and maintenance	352	286
Loss on disposal of fixed assets	183	128
Energy	89	77
Insurance	18	15
EDP	433	334
Advertising and promotion	325	408
Commissions and handset subsidies	225	1 168
General and administration	155	125
Miscellaneous operating expenses	521	507
Total other operating expenses	**2 498**	**3 200**

Swisscom pays commissions to dealers for the acquisition of new mobile subscribers. The amount of commission that is payable is dependent on the type of new subscription package. In addition, Swisscom offers subsidies to new subscribers on the sale of mobile handsets.

10 Financial expense

CHF in millions	1999	2000
Interest on debt	242	291
Interest on accrued liabilities	–	22
Loss on early extinguishment of debt	7	–
Miscellaneous	10	16
Total financial expense	**259**	**329**

11 Financial income

CHF in millions	1999	2000
Interest	45	143
Dividends	9	12
Reversal of allowance on investments	24	9
Gain on sale of investments	34	112
Gain on cross-border tax lease transactions. See note 28.	108	214
Total financial income	**220**	**490**

The gain of sale of investments in 2000 of CHF 112 million comprises CHF 80 million, which represents the dilution gain arising from the transaction with tamedia AG whereby tamedia received 8% of the shares of bluewin AG in exchange for shares in tamedia subsidiaries, and CHF 32 million relating to the sale of shares of Infonet Inc. The gain recorded on the sale of Infonet shares was calculated using the weighted average cost of the shares held.

12 Income tax expense

CHF in millions	1999	2000
Current income tax expense	317	439
Deferred income tax expense	218	201
Total income tax expense	**535**	**640**

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. Current income tax expense for 1999 and 2000 excludes the tax expense of CHF 50 million and CHF 19 million, respectively, related to discontinuing operations. As a result, net current tax expense was CHF 367 million and CHF 458 million respectively.

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

Deferred tax expense in 2000 excludes CHF 8 million tax expenses recorded directly to equity. See note 25. As a result deferred income tax expense was CHF 209 million.

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

CHF in millions	1999	2000
Income before income taxes, equity in net income of affiliated companies and minority interest	2 449	1 997
Weighted average statutory tax rate	25%	25%
Income tax expense at the weighted average statutory tax rate	**612**	**499**
(Reduction) increase in income taxes resulting from:		
Amortization of goodwill	22	81
Swisscom AG tax (benefit) provision on investments in affiliated companies	(16)	49
Effect of different tax rates in other countries	2	30
Income of subsidiary not taxable	(18)	(8)
Income not subject to tax	(8)	(31)
Other	(59)	20
Income tax expense as reported	**535**	**640**

The weighted average statutory tax rate includes both Federal and Cantonal taxes. Taxable income in Switzerland is allocated among the 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.

Deferred income tax assets are recognized for tax loss carry forward to the extent that the realisation of the related tax benefit through the future taxable profits is probable. Certain subsidiaries of Swisscom have unrecognized tax losses of CHF 99 million and CHF 210 million in 1999 and 2000 respectively, to carry forward against future taxable income; these tax losses will expire mainly after 2006.

The tax effects of temporary differences that give rise to deferred tax assets and liabilities at December 31, 1999 and 2000 were as follows:

CHF in millions	1999	2000
Assets associated with:		
Accrued pension cost	330	323
Other current and non current assets	46	36
Tax losses	12	15
Total deferred tax asset	**388**	**374**
Liabilities associated with:		
Property, plant and equipment	(292)	(362)
Other non current assets	–	(21)
Trade accounts receivable and other current assets	(34)	(32)
Accrued liabilities	–	(52)
Other long-term liabilities	(27)	(79)
Total deferred tax liabilities	**(353)**	**(546)**
Net deferred tax assets/(liabilities)	**35**	**(172)**
Deferred tax assets	**58**	**51**
Deferred tax liabilities	**(23)**	**(223)**

13 Equity in net income of affiliated companies

CHF in millions	1999	2000
Equity in net result of operations	317	40
Gain on disposal	8	1 739
Amortization of goodwill	(24)	(30)
Total equity in net income of affiliated companies	**301**	**1 749**

See note 21 for additional information.

14 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:

Number of shares	1999	2000
Basic	73 550 000	73 540 974
Adjustment for share appreciation rights	83 245	71 401
Diluted	73 633 245	73 612 375

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.

15 Cash and cash equivalents

CHF in millions	1999	2000
Cash deposits	534	580
Term deposits	677	1 685
Total cash and cash equivalents	**1 211**	**2 265**

16 Securities available for sale

Securities available for sale consist of listed shares and bonds. Unrealized gains in the amount of CHF 0 million and CHF 2 million in 1999 and 2000, respectively, were recorded as an unrealized market value adjustment on securities within shareholders' equity. Realized gains from sales in 1999 totaled CHF 1 million and were recorded as changes in unrealized market value adjustment on securities. There were no realized gains in 2000.

17 Trade accounts receivable

CHF in millions	1999	2000
Trade accounts receivable	2 840	2 871
Trade accounts receivable from affiliated companies	58	11
Total trade accounts receivable, gross	**2 898**	**2 882**
Allowance for bad debts	(250)	(279)
Total trade accounts receivable, net	**2 648**	**2 603**

18 Inventories

CHF in millions	1999	2000
Raw material and supplies	83	82
Customer premises equipment for resale	172	186
Total inventories, gross	**255**	**268**
Allowance for obsolete and slow-moving items	(15)	(12)
Total inventories, net	**240**	**256**

19 Other current assets

CHF in millions	1999	2000
Other receivables and accrued income	295	398
Receivables from affiliated companies	59	68
Term deposits	450	50
Withholding tax	1	475
Accrued interest receivable	4	40
Total other current assets	**809**	**1 031**

20 Property, plant and equipment

CHF in millions	Land and buildings	Technical equipment	Vehicles and other equipment	Total
At cost:				
Balance at December 31, 1998	**6 004**	**22 504**	**2 104**	**30 612**
Acquisition of subsidiary	–	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**
Effect of adopting IAS 37	–	170	–	170
Additions	19	911	302	1 232
Disposals	(75)	(1 887)	(439)	(2 401)
Reclassifications	–	(63)	58	(5)
Translation adjustments	–	(1)	(5)	(6)
Balance at December 31, 2000	**6 104**	**21 351**	**1 934**	**29 389**
Accumulated depreciation:				
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**
Effect of adopting IAS 37	–	139	–	139
Additions	87	1 503	260	1 850
Disposals	(51)	(1 756)	(412)	(2 219)
Reclassifications	–	(3)	3	–
Translation adjustments	–	–	(3)	(3)
Balance at December 31, 2000	**3 734**	**14 585**	**1 124**	**19 443**
Net book value:				
At December 31, 1998	**2 417**	**8 010**	**674**	**11 101**
At December 31, 1999	**2 462**	**7 519**	**742**	**10 723**
At December 31, 2000	**2 370**	**6 766**	**810**	**9 946**

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

As a result of the re-evaluation of the useful lives of Swisscom's mobile equipment, effective January 1, 2000, Swisscom changed the useful life of its switching and transmission equipment from 10 to 8 years. In addition, as a result of technological advancements, Swisscom decided that it would have to replace certain mobile equipment earlier than expected and reduced the useful lives of this equipment to the expected revised remaining lives. The effect of these changes is an increase in depreciation expense of CHF 82 million in 2000.

Included within property, plant and equipment are the following:

CHF in millions	1999	2000
Assets under construction	**433**	**319**
Technical equipment acquired under finance leases:		
At cost	567	567
Accumulated amortization	(158)	(221)
Net book value	**409**	**346**

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, 1998	**744**	**5**	**749**
Reclassifications	34	87	121
Additions	105	–	105
Dividends received	(513)	–	(513)
Equity in net result of operations	317	(24)	293
Gain on disposal	8	–	8
Proceeds from disposals distributed to Swisscom	(21)	–	(21)
Translation adjustments	(29)	–	(29)
At December 31, 1999	**645**	**68**	**713**
Reclassifications	(409)	(2)	(411)
Additions	113	79	192
Dividends received	(2)	–	(2)
Equity in net result of operations	40	(30)	10
Gain on disposal	1 739	–	1 739
Proceeds from disposals distributed to Swisscom	(1 711)	–	(1 711)
Translation adjustments	(15)	(3)	(18)
At December 31, 2000	**400**	**112**	**512**

The gross amount of goodwill is CHF 150 million at December 31, 1999 and CHF 175 million at December 31, 2000.

Included within reclassifications in 2000 is the reclassification of the loan outstanding from Unisource to Swisscom of CHF 401 million. As part of the demerger of Unisource, this asset recorded by Unisource was transferred to Swisscom Netherlands B.V. and was eliminated on consolidation against the corresponding short-term debt. In addition, Swisscom gained control of Swisscom Directories AG effective October 1, 2000 and has therefore fully consolidated Swisscom Directories from this date.

In 2000, total additions to investments in affiliated companies of CHF 192 million, including goodwill of CHF 79 million, primarily comprised of a capital increase and the conversion of a loan into equity at UTA and the acquisition of shares in three subsidiaries of tamedia AG. These three companies provide platforms for auctioning and classified personal ads.

The gain on disposal of affiliated companies of CHF 1,739 million in 2000 comprises the gain on the sale of Cablecom, tesion and investments held by Unisource (see below).

In March 2000, Swisscom and the two other shareholders of Cablecom Holding AG closed an agreement to sell the assets and liabilities of the Cablecom group to NTL Incorporated, a public company in the United States, for CHF 5,400 million. Swisscom recorded a gain of CHF 1,335 million, net of income tax of CHF 99 million, in March 2000. The profit was distributed by Cablecom in December 2000. Swisscom continues to hold a 32% share in Cablecom Holding AG (now Vesicom Kabelnetz AG). Vesicom Kabelnetz AG has been inactive since the sale to NTL and it is intended to be legally dissolved in the first half of 2001. For 1999 and 2000 excluding this gain, the earnings of, and investment in, Cablecom were not material to Swisscom.

In August 2000, Swisscom sold its shares in tesion to the other shareholder of tesion, EnBW Telekommunication GmbH, for CHF 112 million and recorded a gain of CHF 176 million. The gain includes the reversal of provisions that Swisscom had recorded for losses that tesion had incurred in prior years. As part of the sale all outstanding shareholder's loans were repaid.

In February 2000, Unisource sold its 100% interest in D-Plus Telecommunications GmbH to Mobilcom, a public company in Germany, for CHF 41 million in cash and 3 million shares of Mobilcom which were subsequently sold. The total gain that Swisscom recognized on these transactions was CHF 197 million. In addition, Unisource sold its investment in Arcor in 2000 and Swisscom recorded a gain of CHF 31 million.

Equity in net result of operations in 2000 comprises primarily the gain resulting from the transaction that Swisscom and the other shareholders of Unisource entered into in 1999 regarding the transfer of the operations of the AUCS business to Infonet (see below) and a dilution gain of CHF 35 million recorded on UTA. In December 2000 Raiffeisen acquired a 9% interest in UTA for ATS 625 million (CHF 70 million) through a capital increase. Swisscom did not participate in this capital increase and therefore its share in UTA decreased from 50% to 45.5% and Swisscom recorded a dilution gain of CHF 35 million.

In 1999 Unisource and its shareholder entered into an agreement in which they effectively sold much of the operations of the AUCS business to Infonet, who are managing the AUCS business for a three-year period ending October 2002. Under the terms of various agreements, Unisource is required to provide certain services to Infonet during this three-year period. Unisource and its shareholders entered into an agreement with Infonet, whereby they will settle any losses incurred by AUCS during that three-year period, and will pay a bonus to Infonet, if the AUCS losses remain under an agreed limit. Swisscom's share of the minimum loss 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. 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, is being amortized into income over the three-year period. Swisscom's investment in Infonet is included within other financial assets. See note 23.

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.

Reclassifications of CHF 121 million in 1999 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.

In 1999, Unisource entered into agreements to dispose of substantially all its subsidiaries and affiliates. Swisscom's share of the gain recorded was CHF 596 million. Offsetting this gain was primarily Swisscom's share of the net loss of its investment in UTA, tesion and AUCS.

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	1999	2000
Statement of operations		
Net revenue	872	413
Total operating expenses	(1 055)	(540)
Operating loss	(183)	(127)
Net income	**327**	**1 789**
Balance sheet		
Current assets	945	272
Fixed assets	1 391	883
Current liabilities	692	278
Long-term liabilities	1 004	538
Shareholders' equity	**640**	**339**

22 Goodwill and other intangible assets

CHF in millions	Goodwill	Internally generated intangible assets	Other intangible assets	Total
At cost:				
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**
Additions	–	74	156	230
Disposals	–		(5)	(5)
Reclassifications	7	–	6	13
Translation adjustments	(184)	–	(4)	(188)
Balance at December 31, 2000	**3 213**	**74**	**213**	**3 500**
Accumulated amortization:				
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**
Amortization	324	13	19	356
Disposals	–	–	(3)	(3)
Reclassifications	–	–	(3)	(3)
Translation adjustments	(7)	–	(1)	(8)
Balance at December 31, 2000	**406**	**13**	**34**	**453**
Net book value:				
At December 31, 1998	**109**	–	**16**	**125**
At December 31, 1999	**3 301**	–	**38**	**3 339**
At December 31, 2000	**2 807**	**61**	**179**	**3 047**

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, was recorded as goodwill 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 is accounted for under the equity method. See note 21.

Effective October 1, 1999, Swisscom acquired 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.

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 51.7 (EUR 34) from November 15, 2000 to any date in the future. Swisscom has a call option to purchase these shares at the same price. This call option expired on January 2, 2001 but was extended to December 31, 2003 for no consideration. Approximately 6% of the shares are publicly traded. One put option was exercised in January 2001. See note 36. If the other option is exercised, Swisscom will pay approximately CHF 470 million and record the additional shares as an acquisition on that date.

The fair value of the assets acquired and liabilities assumed in 1999 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**

In October 2000, the Federal Communications Commission (ComCom) agreed to offer additional frequencies for the provision of mobile telephony services based on the GSM standard to Swisscom and its competitors, diAx and Orange. Swisscom paid CHF 70 million in connection with the application for this license which takes effect on January 1, 2001 and is valid for 7 years. In December 2000, Swisscom acquired a UMTS (Universal Mobile Telecommunication System) license for CHF 50 million. The license takes effect on January 1, 2002 and will be valid for 15 years. UMTS is the third-generation mobile radio system that creates additional mobile radio capacity and enables broadband multimedia applications while also providing mobile high-speed Internet access.

23 Other financial assets

CHF in millions	1999	2000
Infonet	566	558
Other investments, net of allowance of CHF 76 million and CHF 58 million	53	86
Loans receivable	108	105
Loans receivable from affiliated companies	233	236
Financial assets from cross-border tax lease arrangements	128	1 306
Other financial assets	24	46
Total other financial assets	**1 112**	**2 337**

The fair value of Infonet shares held at December 31, 2000 and 1999 was CHF 677 million and CHF 3,556 million, respectively.

In 1999 and 2000 Swisscom entered into cross-border tax lease arrangements. Financial assets from cross-border tax lease arrangements represent those assets that were not defeased. See note 28.

24 Debt

Short-term debt

CHF in millions	1999	2000
Short-term loan	1 700	–
Current portion of long-term debt	1 200	1 250
Employee savings deposits	675	607
Short-term loans payable to affiliated companies	401	629
Current portion of finance lease obligation. See note 28.	24	30
Other	49	169
Total short-term debt	**4 049**	**2 685**

Employee savings deposits represent short-term deposits held by Swisscom employees. The interest rate payable on this debt is 2.75% since July 2000. During the first half year of 2000 the interest rate payable was 2.25%.

Loans amounting to CHF 629 million and CHF 401 million in 2000 and 1999 respectively were granted to Swisscom from its affiliated companies at an interest rate of 3.25% in 2000 and 3.5% in 1999.

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, 2000, maturities range from 2001 to 2003 as follows:

CHF in millions	1999	2000
Within one year	1 200	1 250
Within 1–2 years	1 250	1 000
Within 2–3 years	1 000	750
Within 3–4 years	750	–
Total Swiss Post debt	**4 200**	**3 000**
Current portion of Swiss Post debt	(1 200)	(1 250)
Total long-term Swiss Post debt	**3 000**	**1 750**
Other	73	72
Total long-term debt	**3 073**	**1 822**

Interest rates on the Swiss Post debt range from approximately 3.6% to 5.2%.

25 Accrued liabilities

CHF in millions	Restructuring	Dismantlement and restoration costs	Environmental	Other	Total
Balance at December 31, 1999	**40**	**316**	**225**	**190**	**771**
Effect of adopting IAS 37	–	(12)	(21)	–	(33)
Additional provisions	–	20	–	62	82
Interest	–	14	8	–	22
Unused amounts reversed	–	–	–	(9)	(9)
Utilised during year	(11)	–	(1)	(135)	(147)
Acquisition	–	–	–	58	58
Balance at December 31, 2000	**29**	**338**	**211**	**166**	**744**
Less current portion	(29)	–	(21)	(148)	(198)
Total non-current accrued liabilities	**–**	**338**	**190**	**18**	**546**

Swisscom adopted IAS 37 at January 1, 2000; the impact on shareholders' equity at January 1, 2000 is CHF 56 million, net of deferred income taxes of CHF 8 million. See note 12.

The provision for dismantlement and restoration costs relates to the dismantlement of mobile stations and analog transmitter stations and restoration of property owned by third parties on which the transmitters are situated. These costs are expected to be incurred mainly between 2005 and 2015. As a result of adopting IAS 37, Swisscom calculated the total provision required for the analog transmitter stations discounted to its present value and recorded the cost and accumulated depreciation at January 1, 2000 under property, plant and equipment. The net book value capitalized at January 1, 2000 was CHF 31 million. See note 20.

The provision for dismantlement and restoration costs has been estimated at current prices, and discounted using a discount rate of 4.5%.

26 Other current liabilities

CHF in millions	1999	2000
Accrued interest payable	80	135
Reserve for discontinuing operations. See note 35.	11	–
VAT payable	88	100
Social security payable	38	22
Accrual for overtime and unused vacation	80	72
Liabilities from purchase of UMTS and GSM licenses	–	120
Accrued expenses	942	922
Revenue received in advance	237	392
Total other current liabilities	**1 476**	**1 763**

27 Other long-term liabilities

CHF in millions	1999	2000
Revenue received in advance	66	64
Deposits received from customers	89	68
Miscellaneous	48	37
Total other long-term liabilities	**203**	**169**

28 Finance lease obligation

In September 2000, Swisscom entered into a cross-border tax lease arrangement with a foreign investor and received a fee of CHF 214 million net of expenses. Under the terms of the agreement, Swisscom received USD 1,862 million (CHF 3,020 million), excluding its fee, and placed USD 1,685 million (CHF 2,734 million) on deposit. Swisscom defeased USD 973 million (CHF 1,574 million) of the debt by irrevocably placing the equivalent amount of financial assets with institutions backed by governments into a trust. Accordingly, both the assets and liabilities have been removed from the financial statements. USD 712 million (CHF 1,160 million) in assets and USD 889 million (CHF 1,446 million) liabilities were not defeased and are included in the 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, recognized the fee as income in the third quarter of 2000.

During 1999, Swisscom entered into three cross-border tax 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 USD 1,166 million (CHF 1,892 million) of debt and received USD 1,166 million (CHF 1,892 million), excluding its fee. Swisscom defeased USD 1,079 million (CHF 1,746 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. The remaining CHF 146 million in assets and liabilities that were not defeased are 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.

The Standing Interpretations Committee (SIC) of the IASC has issued a draft interpretation D27 "Transactions in the legal form of a lease and leaseback". If the current draft is adopted, the interpretation would allow Swisscom to remove both the asset and liability from its balance sheet. However, there can be no assurance that the interpretation will be adopted as drafted or even issued as a final interpretation.

Payments for finance leases amounted to CHF 39 million and CHF 24 million in 1999 and 2000 respectively. Future minimum lease payments resulting from non-cancelable finance lease contracts are due as follows:

CHF in millions	1999	2000
Within one year	40	103
Within 1–2 years	40	127
Within 2–3 years	42	156
Within 3–4 years	68	158
Within 4–5 years	66	258
After 5 years	612	5 580
Total future payment commitments	**868**	**6 382**
Less future interest charges	(207)	(4 280)
Total finance lease obligation including its current portion (net present value)	**661**	**2 102**
Less current portion. See note 24.	(24)	(30)
Long-term finance lease obligation	**637**	**2 072**

Comprises:		
Obligation from cross-border tax lease arrangements	128	1 592
Other finance lease obligation	509	480
Long-term finance lease obligation	637	2 072

29 Shareholders' equity

Share capital

Shares authorized, issued and outstanding at December 31, 1999 and 2000, total 73,550,000 with a par value of CHF 25 per share. All issued shares are fully paid.

In 2000, Swisscom acquired 56,160 of its own shares through purchases on the market. The total amount paid to acquire the shares was CHF 35 million and has been deducted from shareholders' equity. In 2000, 55,916 of these shares were issued to employees, executive board and board of directors for no consideration. See note 7. The market value of these shares on the date of issuance was CHF 35 million and has been recorded against shareholders' equity.

30 Financial instruments

Derivative financial instruments

Swisscom has entered into cross-currency interest rate swaps and foreign exchange contracts as hedges of USD denominated leases. Swisscom has entered into various foreign exchange contracts to minimize the possible effects of currency on anticipated transactions. However, there is no assurance that transactions will take place. The total lease obligation at December 31, 2000, amounted to CHF 796 million (CHF 533 million at December 31, 1999). It is Swisscom's policy to hedge all currency related exposure (fair value risks and interest rate risks in foreign currencies) on such liabilities with foreign currency derivative instruments such as swaps and foreign exchange contracts. The amounts payable/receivable in US dollars and the amounts payable in Swiss francs are fixed, except for one lease obligation with a carrying value of CHF 287 million at December 31, 2000. The amounts payable in Swiss francs for this lease obligation are based on the 3 month LIBOR rate and hence a fluctuation in interest rates will impact net income. At December 31, 2000, the interest rate on this obligation vary from 4.30% (for CHF) to 7.14% (for USD). 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. The fair value of these contracts at December 31, 2000 and 1999 was CHF 5 million and CHF 2 million, respectively.

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, 2000, foreign exchange contracts were outstanding to purchase EUR 480 million (CHF 725 million) in the first quarter of 2001 related to the purchase of shares in debitel for EUR 305 million. The fair value of this contract was CHF 3 million. 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.

Liquidity risk and credit risk

Liquidity risk includes the risk that, as a result of liquidity requirements 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 5 years. Accordingly, movements in interest rates could lead to fluctuations in the fair-value of such debt instruments but will neither impact net income nor future cash flows.

Interest rate risks in connection with the cross-border tax lease obligations are hedged as described under derivative financial instruments above.

Interest rates for savings deposits of Swisscom employees, included in 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, 1999 and 2000. 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 1999	Fair value 1999	Carrying amount 2000	Fair value 2000
Financial assets				
Cash and cash equivalent	1 211	1 211	2 265	2 265
Securities available for sale	65	65	67	67
Trade accounts receivable	2 648	2 648	2 603	2 603
Other current assets	809	809	1 031	1 031
Other financial assets	1 112	4 102	2 337	2 563
Financial liabilities				
Short-term debt[1]	4 049	4 081	2 685	2 685
Trade accounts payable	1 265	1 265	1 540	1 540
Other current liabilities	1 476	1 476	1 763	1 763
Long-term debt[1]	3 073	3 209	1 822	1 894
Finance lease obligation	637	631	2 072	2 179
Accrued liabilities and accrued pension cost	3 019	3 019	2 669	2 669
Other long-term liabilities	203	203	169	169

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

Estimation of fair values

Trade accounts receivable, trade accounts payable, other current assets and other current liabilities
The carrying amounts are a reasonable estimate of the fair value because of the short maturity of such instruments.

Cash and cash equivalents, securities available for sale, and other financial assets
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 and other long-term liabilities
The fair value of finance lease obligations is estimated using the expected future payments discounted at market rates. The carrying 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, 2000, are estimated at CHF 227 million and become due in 2001.

At December 31, 1999 and 2000, Swisscom has guaranteed certain liabilities of affiliated companies and third parties totaling CHF 574 million and CHF 562 million, respectively.

32 Segment reporting

As a result of an organizational change, the segments were redefined in 2000. Prior year figures have been restated to conform to the new structure. The segment Public Com comprises access, national traffic, outgoing international traffic, value added- and information services, customer premises equipment, payphone services and operator services. Mobile Com comprises the provision of mobile telephone services including revenue for use of the network and sales of equipment. Business Com includes managed network services, corporate communication solutions and communication equipment and installation. Wholesale and Carrier Services includes the use of the Swisscom network by other national and international telecommunication providers. The segment "Other" comprises, primarily, the international group companies (excluding debitel), broadcasting and bluewin, as well as the rental of buildings to third parties.

Revenue on intersegment sales are determined on the same basis as transactions with third parties. Costs are allocated among segments based on a variety of factors as determined by management to reflect an appropriate amount of usage. Expenses incurred for services provided by Swisscom's IT division, which is a vertically integrated business, are allocated to the segments based on internal transfer prices. Swisscom IT's profit or loss for the year is recorded under corporate expenses not allocated. Swisscom IT recorded a loss of CHF 279 million in 1999 and a profit of CHF 62 million in 2000. Swisscom's reportable segments, with the exception of Mobile Com 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.

1999 CHF in millions	Public Com	Mobile Com	Business Com	Wholesale and Carrier Services	debitel	Other	Total
Net revenue from external customers	4 968	2 346	1 452	752	922	612	11 052
Intersegment net revenues	220	500	115	817	–	14	1 666
Net revenue	**5 188**	**2 846**	**1 567**	**1 569**	**922**	**626**	**12 718**
Segment expenses	(3 789)	(1 556)	(1 538)	(1 068)	(892)	(471)	(9 314)
Operating income before amortization of goodwill	**1 399**	**1 290**	**29**	**501**	**30**	**155**	**3 404**
Amortization of goodwill	–	–	–	–	(84)	(3)	(87)
Segment operating income	**1 399**	**1 290**	**29**	**501**	**(54)**	**152**	**3 317**
Termination benefits							(249)
Corporate expenses not allocated							(580)
Operating income							**2 488**

Equity in net income of affiliated companies of CHF 23 million and CHF 278 million was allocated to Business Com and Other, respectively.

Geographical Segments

CHF in millions	Net revenue	Carrying amount of assets	Additions to property plant and equipment and intangible assets
Switzerland	10 038	16 565	1 455
Germany	739	3 863	9
Other international activities	275	490	20
Total	**11 052**	**20 918**	**1 484**

2000 CHF in millions	Public Com	Mobile Com	Business Com	Wholesale and Carrier Services	debitel	Other	Total
Net revenue from external customers	4 042	2 847	1 383	1 179	3 993	649	14 093
Intersegment net revenues	265	582	109	1 367	–	135	2 458
Net revenue	**4 307**	**3 429**	**1 492**	**2 546**	**3 993**	**784**	**16 551**
Segment expenses	(3 630)	(2 237)	(1 500)	(2 114)	(3 866)	(729)	(14 076)
Operating income before amortization of goodwill	**677**	**1 192**	**(8)**	**432**	**127**	**55**	**2 475**
Amortization of goodwill	–	–	–	–	(323)	(2)	(325)
Segment operating income	**677**	**1 192**	**(8)**	**432**	**(196)**	**53**	**2 150**
Termination benefits							(122)
Corporate expenses not allocated							(192)
Operating income							**1 836**

Equity in net income of affiliated companies of CHF 18 million, a loss of CHF 5 million and income of CHF 1,736 million was allocated to Business Com, debitel and Other, respectively.

Geographical segments

CHF in millions	Net revenue	Carrying amount of assets	Additions to property plant and equipment and intangible assets
Switzerland	9 967	17 631	1 376
Germany	3 008	4 057	44
Other international activities	1 118	427	42
Total	**14 093**	**22 115**	**1 462**

33 Executive Board and Board of Directors

Remuneration of members of the Executive Board and the Board of Directors in 1999 and 2000 amounted to CHF 6 million and CHF 10.8 million, respectively. Included within remuneration for 2000 are CHF 3.6 million relating to contractual commitments for members either leaving or entering the Executive Board.

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
bluewin AG	Zurich, Switzerland	92	full
conextrade AG	Zurich, Switzerland	100	full
Infonet (Schweiz) AG	Berne, Switzerland	90	full
plenaxx.com AG[1]	Belp, Switzerland	24.38	equity
PubliDirect Holding AG	Zurich, Switzerland	49	equity
Swisscom Directories AG[3]	Berne, Switzerland	51	full
Swisscom Immobilien AG	Berne, Switzerland	100	full
Swisscom Immobilien Invest AG	Berne, Switzerland	100	full
VESICOM Kabelnetz AG[1]	Frauenfeld, Switzerland	32	equity
Other countries:			
AUCS Communications Services v.o.f.	Hoofddorp, Netherlands	33.33	equity
debitel group:	Stuttgart, Germany	74.25	full
Dangaard Telecom Holding A/S	Padborg, Denmark	21.52	equity
debitel Belgium S.A.	Brussels, Belgium	48	full
debitel Danmark A/S	Albertslund, Denmark	78.25	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.	Ljubjlana, Slovenia	52	full
debitel Vertriebs GmbH	Stuttgart, Germany	100	full
DLG-debitel I/S	Copenhagen, Denmark	50	full
DGS (Dansk GSM Service A/S)	Padborg, Denmark	100	full
ESTEL S.A.[1]	Strasbourg, France	50	equity
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] [2]	The Hague, Netherlands	49	equity
UTA Telekom AG[1]	Vienna, Austria	45.5	equity

[1] Joint venture.
[2] Holding the interest in Cesky Telecom.
[3] Consolidated from October 1, 2000.

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 and continued losses of these investments and recorded a loss of CHF 519 million in 1998.

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 and had to settle liabilities of CHF 27 million in cash. The gain of CHF 69 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.

36 Post balance sheet events

Agreement with Vodafone plc

In November 2000, Swisscom entered into an agreement with Vodafone plc ("Vodafone") for the sale of 25% of the equity of the Swisscom mobile business, Swisscom Mobile AG, for CHF 4.5 billion. Consideration will be paid either in cash or in Vodafone shares, or a combination of both, at Vodafone's discretion, in two installments. The first installment of CHF 2.2 billion will be paid when the transaction is closed and the remaining CHF 2.3 billion within twelve months of the close. It is expected that the sale will be completed by the end of March 2001. Swisscom expects to record a significant gain when the transaction closes.

Sale of real estate

On March 1, 2001 Swisscom entered into an agreement with a consortium led by Credit Suisse Asset Management ("the buyer") to sell 28 of its commercial and office buildings for CHF 1,272 million. In addition to the sales agreement, Swisscom entered into rental agreements with the buyer for 27 of these properties for periods ranging from 1 to 25 years. Swisscom is currently assessing the accounting treatment for this transaction. The transaction is expected to close in April 2001.

Acquisition of a further 10% of debitel

In October 1999, Swisscom acquired 74.2% of the shares of debitel Aktiengesellschaft ("debitel"). As part of the purchase agreement, two of the shareholders had an option to put 20% of the remaining shares to Swisscom at EUR 34 per share. One of these shareholders exercised their option for 10% of the shares in January 2001 for CHF 468 million (EUR 305 million) in cash. This acquisition will be accounted for using the purchase method in January 2001 and a significant amount of the purchase price will be allocated to goodwill.

Capital reduction

In addition to a dividend of CHF 11 per share, the Board of Directors has proposed a capital reduction of CHF 8 per share. This reduction has to be approved by the shareholders. Should this reduction be approved, Swisscom will pay CHF 588 million to its shareholders in the second quarter of 2001.

Report of the Statutory Auditors

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

As statutory auditors, we have audited the accounting records and the financial statements (income statement, balance sheet and notes to the financial statements on pages 86 to 88 of Swisscom AG) for the year ended December 31, 2000.

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

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

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

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

PricewaterhouseCoopers AG

Peter Wittwer Julie Fitzgerald

Berne, March 21, 2001

Swisscom AG
Income statement

CHF in millions	Year ended December 31 1999	2000
Net revenue	10 096	9 935
Capitalized cost	77	90
Gain on disposal of fixed assets	7	8
Total	**10 180**	**10 033**
Goods and services purchased	1 616	1 909
Personnel expenses	2 007	2 057
Other operating expenses	2 196	2 158
Depreciation and amortization	2 422	2 094
Restructuring charges	249	276
Total operating expenses	**8 490**	**8 494**
Operating income	**1 690**	**1 539**
Financial expense	(392)	(398)
Financial income	891	1 968
Income before income taxes	**2 189**	**3 109**
Income tax expense	(361)	(400)
Net income	**1 828**	**2 709**

Swisscom AG
Balance sheet

CHF in millions	Note	At December 31 1999	2000
Assets			
Current assets			
Cash and cash equivalents		1 012	1 707
Securities available for sale		1	1
Trade accounts receivable		2 258	2 124
Inventories		125	111
Other current assets		542	772
Total current assets		**3 938**	**4 715**
Non-current assets			
Property, plant and equipment	4	7 062	6 097
Intangible assets		–	120
Investments	6	5 359	5 688
Other non-current assets		2 414	3 388
Total non-current assets		**14 835**	**15 392**
Total assets		**18 773**	**20 008**
Liabilities and shareholders' equity			
Current liabilities			
Short-term debt		4 007	2 527
Trade accounts payable		843	790
Other current liabilities		1 923	2 298
Total current liabilities		**6 773**	**5 615**
Long-term liabilities			
Long-term debt		3 576	2 972
Finance lease obligation	5	637	2 072
Accrued liabilities		607	537
Other long-term liabilities		528	482
Total long-term liabilities		**5 348**	**6 063**
Total liabilities		**12 121**	**11 678**
Shareholders' equity			
Share capital		1 839	1 839
General reserves		2 712	2 712
Retained earnings	7	2 101	3 779
Total shareholders'equity	2	**6 652**	**8 330**
Total liabilities and shareholders' equity		**18 773**	**20 008**

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

Shares authorized, issued and outstanding at December 31, 1999 and 2000, total 73,550,000 with a par value of CHF 25 per share. All issued shares are fully paid.

In 2000, Swisscom acquired 244 of its own shares for an average of CHF 644 and recorded these shares under securities available for sale. In addition Swisscom acquired 55,916 of its own shares through purchases on the market. These were issued to employees for no consideration (see note 7). The total amount paid to acquire the shares was CHF 35 million and has been recorded as personnel expenses. At December 31, 2000, Swisscom had 2,514 treasury shares.

3 Contingent liabilities

Total guarantees and pledged securities in favor of third parties at December 31, 1999, and 2000, amounted to CHF 574 million and CHF 562 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.
In 1999 and 2000 Swisscom entered four cross-border tax leases. Swisscom incurred debt and received CHF 1,892 million and CHF 3,020 million and recorded a gain of CHF 108 million and CHF 214 million in 1999 and 2000, respectively. Swisscom defeased CHF 1,746 million and CHF 1,574 million by irrevocably placing the equivalent amount into a trust. Accordingly both the assets and liabilities have been removed from the financial statements. Swisscom is recognizing the fee as income over the life of the lease contracts. Further information is included in Notes 2 and 28 of the consolidated financial statements. Financial assets of CHF 1,306 million can not be realised over the life of the lease.

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.

Two of the shareholders of debitel have an option to each put 10% of the outstanding shares to Swisscom, representing 17.9 million shares for a price of CHF 51.7 (EUR 34) from November 15, 2000 to any date in the future.

7 Revaluation of investments

During 1999 and 2000 certain investments were sold at a price above their book value. The difference 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 to retained earnings.

8 Significant shareholders and transfer restrictions for registered shares

On December 31, 2000, the Swiss Confederation (the "Confederation") as majority shareholder, held 65.5 percent 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.

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 five percent 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, 2000, five percent of the share capital was equivalent to 3,677,500 registered shares.

9 Capital reduction

In addition to a dividend of CHF 11 per share, the Board of Directors has proposed a capital reduction of CHF 8 per share. This reduction has to be approved by the shareholders. Should this reduction be approved, Swisscom will pay CHF 588 million to its shareholders in the second quarter of 2001.

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 3,779 million for the year ended December 31, 2000:

CHF in millions	2000
Dividend of 44% registered shares*	809
Balance to be carried forward	2 970
Total retained earnings	**3 779**

* excluding treasury stock

If the Shareholders' Meeting approves this proposal, the dividend will be paid to the shareholders on June 1, 2001:

Per registered share	CHF
Dividend, gross	11.00
less 35% withholding tax	3.85
Dividend payment, net	**7.15**

Swisscom Group
Five year review

CHF in millions except where indicated		1996	1997	1998	1999	2000
Net revenue		9 532	9 842	10 388	11 052	14 093
Operating income before restructuring charges and depreciation (EBITDA)		4 232	3 779	4 513	4 192	4 039
EBITDA margin	%	44.4	38.4	43.4	37.9	28.7
Operating income before restructuring charges (EBIT)		2 505	2 040	2 892	2 488	1 836
EBIT margin	%	26.3	20.7	27.8	22.5	13.0
Restructuring charges		–	1 726	–	–	–
Net income (loss) from continuing operations		1 906	(304)	2 065	2 208	3 092
Net income (loss)		1 830	(415)	1 546	2 391	3 161
Net income margin	%	19.2	n/a	14.9	21.6	22.4
Shareholders' equity		(84)	1 230	5 347	6 685	8 592
Equity ratio[1]	%	n/a	7.9	31.6	32.0	38.9
Number of full-time equivalent employees at end of period[2]	FTE	21 951	22 170	21 946	21 777	20 604
Average number of full-time equivalent employees[3]	FTE	21 311	22 145	22 069	20 393	20 989
Revenue per employee	CHF in thousands	447	444	471	542	671
Net cash provided by operating activities		4 115	1 335	3 574	3 366	4 186
Capital expenditure		2 278	2 374	1 305	1 468	1 450
Investments in subsidiaries and affiliated companies		792	233	184	3 333	139
Free cash flow		1 316	(1 142)	2 235	(1 435)	4 689
Key figures per share						
Average number of shares outstanding (at CHF 25.– each)	in mio.	66	66	67.888	73.550	73.550
Price per share (high/low since October 5, 1998)	CHF	n/a	n/a	588.–/376.50	656.–/ 445.–	754.–/361.–
Net income (loss) from continuing operations	CHF	28.88	(4.61)	30.42	30.02	42.04
Net income (loss)	CHF	27.73	(6.29)	22.77	32.51	42.98
Shareholders' equity	CHF	(1.27)	18.64	72.70	90.89	116.82
Gross dividend	CHF	n/a	n/a	11.00	15.00	11.00 *
Capital reduction. See note 36.	CHF	–	–	–	–	8.00 *
Pay-out ratio[4]	%	n/a	n/a	52.3	46.13	44.21 *
Market capitalization at end of period	CHF in mio.	n/a	n/a	42 291	47 366	31 001

* according to the proposal of the Board of Directors to the Shareholders' Meeting.
[1] Represents shareholders' equity as a percentage of total assets.
[2] Includes 2,523 and 3,145 employees of debitel at December 31, 1999 and 2000, respectively.
[3] Excluding debitel, revenue per employee was CHF 538 thousands in 1999 and CHF 555 thousands in 2000.
[4] Represents gross dividend and capital reduction as a percentage of net income per share.

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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