

CONSOLIDATED
FINANCIAL STATEMENTS

JANUARY-JUNE 2000

Key Figures

unaudited

CHF in millions, except where indicated

30.6.1999

30.6.2000

		30.6.1999 ¹⁾	30.6.2000
Swisscom Group			
Net revenues		5 169	6 897
Operating income before depreciation (EBITDA)		2 497	2 109
Operating income (EBIT)		1 680	1 116
Net income from continuing operations		1 201	2 351
Net income		1 201	2 420
<hr/>			
Number of full-time equivalent employees at end of period	FTE	19 897	21 028
Average number of full-time equivalent employees	FTE	20 389	21 319
Revenue per employee	CHF in thousands	253	324
Net cash provided by operating activities		1 877	2 103
Capital expenditures		430	387
Investments in subsidiaries, affiliated companies and other non-current assets, net		120	196
Free cash flow		1 322	1 966

CHF in millions

Net revenues			
Access		684	688
National traffic revenue		1 070	750
Outgoing international traffic revenue		459	188
Customer premises equipment		125	113
Value-added services		203	233
Other products		160	125
Public Com		2 701	2 097
Mobile Com		1 133	1 364
Business Com		691	692
Wholesale and Carrier Services		339	575
debitel		–	1 861
Other revenues		305	308
Total net revenues		5 169	6 897

Call volumes in million minutes

Public Com			
Local area traffic		5 512	5 713
National long-distance traffic		2 846	1 686
Traffic to other networks		429	511
Total national traffic		8 787	7 910
Outgoing international fixed-line traffic		725	652
Traffic from value-added services		1 575	3 300
Traffic from other products		162	124

At period end, in thousands

PSTN (number of channels)		3 756	3 479
Total ISDN (number of channels)		1 125	1 610
Total number of access channels		4 881	5 089
<hr/>			
Mobile Com			
Number of customers	in thousands	2 010	2 717
Average monthly revenue per customer	in CHF	87	72
<hr/>			
debitel			
Number of customers	in thousands	3 850	6 278

¹⁾ debitel was acquired effective October 1, 1999 and is therefore not included in the first half year results for 1999.

Financial Report

In the first half of 2000 Swisscom's revenues increased by 33.4% to CHF 6'897 million compared to the same period in the previous year. debitel's revenues of CHF 1'861 million contributed to the increase. debitel acquired 1.6 million new customers in the first half year. Revenues from Mobile Com increased by 20.4% to CHF 1'364 million compared to the same period in the previous year, due to sustained growth in the Swiss mobile market whereby 424'000 new mobile customers were acquired in 2000. Massive price reductions led to significantly lower revenues and margins in fixed-network telephony. Swisscom's operating income (EBIT) amounted to CHF 1'116 million, which represents a decline of 33.6% compared to the previous year. As a result of the gain on sales of certain investments, net income increased to CHF 2'420 million.

In view of sustained pressure on margins, Swisscom anticipates substantially lower operating income for the full year.

Public Com

In order to increase competitiveness, Swisscom drastically cut fixed-network tariffs on March 1, 2000. Public Com's revenues fell by 22.4% to CHF 2'097 million in the first half of 2000 compared to the previous year. Revenues declined mainly in national long distance and international traffic. On October 1, 1999, the local area was expanded at the expense of the long-distance area. Combined with a loss of market share, this is the major reason for the sharp decline in national long-distance traffic volumes. In contrast, value-added services posted strong growth in volume, due principally to an increase in Internet traffic. In comparison to the 1st quarter of 2000, in the 2nd quarter national and international traffic volumes fell by 10% and 4% respectively. Traffic volumes are generally lower in the 2nd quarter. The number of ISDN channels continues to increase. At the end of June 2000, Swisscom reached 1.61 million ISDN channels and 3.48 million PSTN lines. Due to the high proportion of fixed costs, it was not possible to reduce Public Com's operating expenditure in line with the fall in revenues. Consequently, the EBIT margin fell from 32.4% to 18.2%.

Mobile Com

Mobile communications continues to be Swisscom's growth business with an increase in revenues of 20.4% to CHF 1'364 million compared to the same period in the previous year. Despite intensive competition, approximately 424'000 new customers were acquired in the first half year, 264'000 in the 2nd quarter alone. Swisscom had 2.72 million customers and a market share of 68% at 30 June 2000. Compared to the first quarter, revenues increased by 12.8% in the 2nd quarter of 2000. The growth in revenues resulted primarily from high roaming revenues and the sale of handsets. In comparison with the previous year, average monthly revenue per customer (ARPU) fell from CHF 87 to CHF 72 as new customers make less calls on average. A total of 244 million SMS messages were transmitted in the first half of 2000, representing more than a three-fold increase over the previous year.

Mobile Com's operating expenditure increased by 38.9% in comparison to the previous year. The additional expenditure is mainly due to customer growth and higher traffic volumes. These factors led to higher roaming costs, higher material expenditure and higher customer acquisition costs. As a result, the EBIT margin fell to 40.4%. Swisscom will apply for a third-generation mobile licence in Switzerland (UMTS) and additional GSM frequencies.

Business Com

Revenues remained practically unchanged at CHF 692 million in the 1st half year of 2000 compared to the previous year. Business Com posted negative operating income of CHF 3 million. The set-up of IP (Internet protocol) platforms resulted in exceptionally high costs. Furthermore, start-up costs in e-business, such as e-marketplace, adversely affected operating income. The development of the leased line business exceeded expectations. Revenues increased by 9.8% to CHF 291 million. To combat competitive pressure, especially in international business, price reductions have been agreed for the 2nd half year. In contrast, revenues from the sale of customer premises equipment fell by 8.1% to CHF 265 million.

Financial Report

Wholesale and Carrier Services

Both national interconnection services for other telecommunications providers and international carriers' carrier services contributed to the increase in revenues of 69.6% to CHF 575 million compared to the same period in the previous year. From 1 January 2000, national interconnection services have been provided on the basis of the regulatory guidelines at LRIC (Long Run Incremental Cost) prices, which are lower than the prices of 1999. This is the main reason for the reduction of 9.3% in the EBIT margin from 29.6% in the same period of the previous year to 20.3%.

debitel

debitel was acquired on October 1, 1999. debitel is not included in Swisscom's consolidated financial statements for the previous year. In the 1st half year of 2000, debitel's main objective was to acquire new customers in Germany. Net increase in customers in Germany exceeded 1.3 million in the 1st half year. Market share in the German mobile market increased to 14%. debitel recorded 4.5 million subscribers in Germany. The number of customers outside of Germany amounted to 1.8 million. The total number of customers increased by 1.6 million in the 1st half year. Revenues reached CHF 1'861 million, which represents an increase of 33.8% compared to the previous year. EBIT before amortization of goodwill is CHF 55 million. A higher than expected increase in customer acquisition costs led to a slight decline in the EBIT of mobile communications in Germany. The foreign business of debitel also adversely affected the EBIT.

debitel and Swisscom withdrew from the auction for a UMTS licence in Germany. They intend to substantially increase debitel's market share by the time UMTS is launched through huge investment in customer acquisition. This will establish the basis for further growth and the conclusion of a MVNO "Mobile Virtual Network" agreement.

Other

The "Other" segment includes the group's international companies (excluding debitel), broadcasting, the ISP "bluewin" and the rental of property to third parties.

bluewin is now a separate subsidiary and an IPO is currently being prepared. With a view to forging a strategic partnership, TA Media acquired 8% of bluewin. In exchange, bluewin acquired a 15% holding in Winner Market AG, TA Media's online information services, and further holdings in PartnerWinner AG (35% holding) and AuctionWinner AG (30% holding). This share exchange resulted in a book gain of CHF 80 million.

Operating Expenditure

Operating expenditure including depreciation increased by CHF 2'280 million in the 1st half of the year compared to the same period of the previous year of which CHF 1'973 million relates to debitel, including the amortization of goodwill. Excluding debitel, expenditure on goods and services increased by CHF 301 million. As a result of increasing competition, more and more traffic is terminated on the networks of competitors, which leads to higher costs. At Mobile Com, the costs of roaming and material expenditure on handsets have risen due to growth in customer numbers and volume. Excluding debitel, personnel expenditure fell by CHF 15 million, while other operating expenditure increased by CHF 30 million. Higher customer acquisitions costs also gave rise to an increase in operating expenditure.

Financial Result and Income of Affiliated Companies

Swisscom recorded net financial income in the 1st half year, primarily due to a book gain of CHF 80 million, which was recorded on the sale of a 8% holding of bluewin to TA-Media.

The holding in Cablecom was sold in the 1st quarter of 2000. This resulted in income of CHF 1'335 million, which is included within net income of affiliated companies. The sale of the holding in D Plus by Unisource resulted in a gain of CHF 196 million.

Income tax expense

The effective tax rate in the first half of 2000 was 28.3%, compared with 23.9% in the same period for 1999. The main reason for the increase is due to the amortization of the goodwill of debitel, which is not tax deductible.

Outlook for 2000

The consolidation of debitel for the first full year in 2000 will lead to a significant increase in annual revenues for 2000. Due to expansion of the customer base, an increase in revenues is also anticipated from Mobile Com. However, revenues from Public Com will be considerably lower than in the previous year. Sustained pressure on margins and customary higher operating expenditure in the 2nd half of the year will result in substantially lower operating income in comparison to 1999. Swisscom anticipates a further reduction of the workforce in the Swiss core business in 2001 to 2003. This restructuring program will result in costs in the current year. The terms of this program were agreed with the unions in June 2000. Given the one-time transactions, such as the sale of the holding in Cablecom, and assuming that market conditions remain the same, we expect to achieve net income at a similar level to last year despite substantially lower operating income (EBIT). The sale of part of the real estate portfolio in Switzerland is planned for 2001.

Consolidated income statement

CHF in millions	unaudited			
	1.4.–30.6.1999	1.4.–30.6.2000	1.1.–30.6.1999	1.1.–30.6.2000
Net revenues	2 580	3 511	5 169	6 897
Capitalized cost	15	10	36	24
Total	2 595	3 521	5 205	6 921
Goods and services purchased	357	1 184	709	2 185
Personnel expenses	574	591	1 123	1 221
Other operating expenses	492	778	876	1 406
Depreciation and amortization	432	512	817	993
Total operating expenses	1 855	3 065	3 525	5 805
Operating income	740	456	1 680	1 116
Financial expense	(58)	(55)	(124)	(133)
Financial income	18	73	28	158
Income before income taxes, equity in net (loss) income of affiliated companies and minority interest	700	474	1 584	1 141
Income tax expense	(172)	(144)	(379)	(323)
Income before equity in net (loss) income of affiliated companies and minority interest	528	330	1 205	818
Equity in net (loss) income of affiliated companies	42	29	(4)	1 540
Minority interest in loss of consolidated subsidiaries	–	(4)	–	(7)
Net income from continuing operations	570	355	1 201	2 351
Discontinued operations	–	–	–	69
Net income	570	355	1 201	2 420
Basic and diluted earnings per share (in CHF)				
– on continuing operations	7.75	4.83	16.33	31.96
– on discontinued operations	–	–	–	0.94
– net income	7.75	4.83	16.33	32.90

Consolidated balance sheet (condensed)

		unaudited
CHF in millions	31.12.1999	30.6.2000
Assets		
Cash and cash equivalents	1 211	1 320
Other current assets	3 762	3 367
Total current assets	4 973	4 687
Property, plant and equipment	10 723	10 261
Goodwill and other intangible assets	3 339	3 097
Investments in affiliated companies	713	2 025
Other non-current assets	1 170	1 223
Total non-current assets	15 945	16 606
Total assets	20 918	21 293
Liabilities and shareholders' equity		
Short-term debt	4 049	3 526
Other current liabilities	3 846	3 883
Total current liabilities	7 895	7 409
Long-term debt	3 710	2 932
Other long-term liabilities	2 597	2 927
Total long-term liabilities	6 307	5 859
Total liabilities	14 202	13 268
Minority interest in subsidiaries	31	36
Total shareholders' equity	6 685	7 989
Total liabilities and shareholders' equity	20 918	21 293

Consolidated cash flow statement (condensed)

		unaudited
CHF in millions	30.6.1999	30.6.2000
Net cash provided by operating activities	1 877	2 103
Capital expenditures	(430)	(387)
Acquisitions of subsidiaries and purchases of other non-current assets, net	(120)	196
Other cash flow from investment activities	(5)	54
Net cash from investing activities	(555)	(137)
Repayment of debt, net	(538)	(2 400)
Increase in debt payable to affiliated companies	-	1 684
Profit distribution paid	(809)	(1 103)
Other cash flow from financing activities, net	-	(38)
Net cash used in financing activities	(1 347)	(1 857)
Net (decrease) increase in cash and cash equivalents	(25)	109
Cash and cash equivalents at beginning of year	1 759	1 211
Cash and cash equivalents at end of period	1 734	1 320

Consolidated statement of shareholders' equity

CHF in millions	<u>unaudited</u>						Total
	Share capital	Additional paid-in capital	Retained earnings (accumulated deficit)	Treasury stock	Market value adjustment on securities	Translation adjustment	
Balance at December 31, 1998	1 839	2 273	1 232	–	1	2	5 347
Translation adjustments	–	–	–	–	–	(28)	(28)
Net income	–	–	1 201	–	–	–	1 201
Dividend paid	–	–	(809)	–	–	–	(809)
Accrued pension cost adjustment	–	–	(339)	–	–	–	(339)
Balance at June 30, 1999	1 839	2 273	1 285	–	1	(26)	5 372
Balance at December 31, 1999	1 839	2 386	2 475	(1)	–	(14)	6 685
Translation adjustments	–	–	–	–	–	(111)	(111)
Net income	–	–	2 420	–	–	–	2 420
Dividend paid	–	–	(1 103)	–	–	–	(1 103)
Purchased treasury stock	–	–	–	(1)	–	–	(1)
Provision adjustment ¹⁾	–	–	99	–	–	–	99
Balance at June 30, 2000	1 839	2 386	3 891	(2)	–	(125)	7 989

¹⁾ The adoption of IAS 37, provisions, contingent liabilities and contingent assets, resulted in a decrease in long-term liabilities. The main reason for the decrease is due to the effect of the discounting of such liabilities to present value.

Notes to the consolidated condensed financial statements

1 Accounting policies

The unaudited consolidated financial statements have been prepared in accordance with International Accounting Standards 34 – Interim Financial Reporting. On January 1, 2000, IAS 37 – Provisions, Contingent Liabilities and Contingent Assets and IAS 38 – Intangible Assets were adopted. The accounting policies used, with the exception of the treatment of the costs of employees' shares, are consistent with those used in the 1999 annual consolidated financial statements. Previously, the costs of employee shares were charged directly to capital. From January 1, 2000 these costs are charged to Personnel Expenses and amounted to CHF 39 million in the 1st quarter of 2000.

Certain prior period amounts have been reclassified to conform to current period presentation.

2 Segment Information

As a result of various organisational changes the segments have been redefined compared to prior year. Prior year figures 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 revenues 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" consists, primarily, of international subsidiaries (excluding debitel), broadcasting and bluewin, as well as rental of buildings to third parties.

CHF in millions	<u>unaudited</u>						
	Public Com	Mobile Com	Business Com	Wholesale and Carrier Services	debitel	Other	Total
30.6.1999							
Net revenues from external customers	2 701	1 133	691	339	–	305	5 169
Intersegment net revenues	101	224	60	331	–	–	716
Net revenues	2 802	1 357	751	670	–	305	5 885
Segment expenses	(1 893)	(704)	(736)	(472)	–	(189)	(3 994)
Operating income before goodwill amortization	909	653	15	198	–	116	1 891
Goodwill amortization	–	–	–	–	–	(1)	(1)
Segment operating income	909	653	15	198	–	115	1 890
<i>Margin in %</i>	<i>32.4</i>	<i>48.1</i>	<i>2.0</i>	<i>29.6</i>	<i>–</i>	<i>–</i>	<i>–</i>
Corporate expenses not allocated							(210)
Operating income							1 680
30.6.2000							
Net revenues from external customers	2 097	1 364	692	575	1 861	308	6 897
Intersegment net revenues	113	276	44	588	–	61	1 082
Net revenues	2 210	1 640	736	1 163	1 861	369	7 979
Segment expenses	(1 807)	(978)	(739)	(927)	(1 806)	(260)	(6 517)
Operating income before goodwill amortization	403	662	(3)	236	55	109	1 462
Goodwill amortization	–	–	–	–	(166)	(2)	(168)
Segment operating income	403	662	(3)	236	(111)	107	1 294
<i>Margin in %</i>	<i>18.2</i>	<i>40.4</i>	<i>(0.4)</i>	<i>20.3</i>	<i>(6.0)</i>	<i>–</i>	<i>–</i>
Corporate expenses not allocated							(178)
Operating income							1 116

Notes to the consolidated condensed financial statements

3 Equity in net gain of affiliated companies

The equity in net profit of affiliated companies relates primarily to the gain on the sale of Cablecom. Cablecom Holding AG disposed of its subsidiaries and affiliated companies for CHF 5'400 million. Swisscom's share of the profit, after deduction of liabilities owed to Cablecom Holding AG, amounts to CHF 1'335 million. Swisscom continues to hold a 32% share in Cablecom Holding AG (now Vesicom Kabelnetz AG). The realised profit remains in Vesicom. As a result there is a significant increase in the value of investments in affiliated companies.

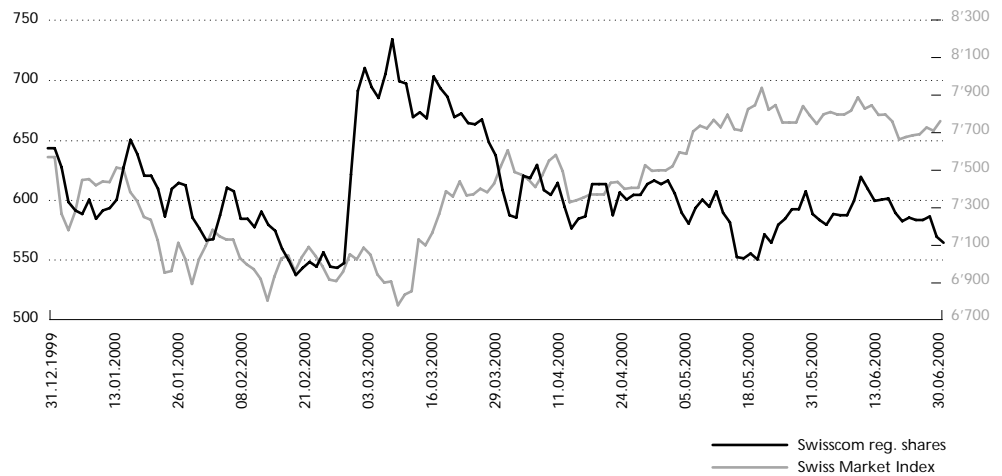
The assets and liabilities of Unisource N.V. were transferred to the three shareholders as a result of the demerger, which took place in the 2nd quarter 2000. Swisscom now holds a direct investment of 33% in AUCS. In 1999 major parts of AUCS operations were sold to Infonet, which will continue to manage the AUCS business for a three-year period. Unisource and its shareholders have entered into an agreement with Infonet, whereby they will settle any losses incurred by AUCS during that three-year period, and to will pay a bonus to Infonet, if the AUCS losses remain under an agreed limit. Through the demerger all liabilities of Unisource have been transferred to the shareholders. In 1999 a provision for potential commitments was deducted from the value of investments in affiliated companies. This provision is now accounted for in the balance sheet under provisions.

4 Debt

CHF in millions	unaudited	
	31.12.1999	30.6.2000
Long-term debt		
Swiss Post debt	4 200	3 500
Finance lease obligation	661	640
Other long-term debt	73	87
Total	4 934	4 227
Less current portion	(1 224)	(1 295)
Total long-term debt	3 710	2 932
Short-term debt		
Short-term loan	1 700	–
Current portion of long-term debt	1 224	1 295
Employee savings deposits	675	640
Short-term loans payable to affiliated companies	401	1 456
Other short-term debt	49	135
Total short-term debt	4 049	3 526

Shareholder information

Swisscom share price on the Swiss stock exchange SWX (in CHF)



	SWX	NYSE
High	CHF 754	USD 44.00
Low	CHF 533	USD 31.00
Closing price on 30.06.00	CHF 565	USD 35.25
Stock exchange turnover (01.01.–30.06.00)	28'304'365 shares	2'906'000 ADS
Ø Turnover/day	228'261 shares	28'063 ADS
Market capitalisation (100% at 30.06.00)	CHF 41.6 bn.	n/a

Source: Reuters

Share information

Share capital totals CHF 1'839 million and is divided into 73'550'000 registered shares with a nominal value of CHF 25. Of these registered shares, 48'175'250 (65.5%) are owned by the Swiss confederation and 25'374'750 (34.5%) are distributed amongst 70'565 shareholders (at 30 June 2000). The unattributed shares average is around 15%.

Each share equals one vote. Voting rights can only be exercised if the shareholder is registered in Swisscom's share register and is entitled to vote. The Board of Directors may reject the entry of a shareholder who is entitled to vote in the share register, if the shareholder's voting rights exceed 5% of the share capital.

Financial calendar

November 29, 2000	Publication of interim report on third quarter 2000 (Press release)
April 2001	Annual results 2000
May 29, 2001	Shareholders' meeting, Hallenstadion Zurich-Oerlikon

Stock markets

Swisscom shares are quoted on the Swiss stock exchange SWX under the symbol "SCMN" (security number 874'251) and as American depository shares (ADS) at a ratio of 1:10 on the New York Stock Exchange under the symbol "SCM" (security number 949'527).

Stock exchange	Bloomberg	Reuters	Telekurs
Zurich (09.00–17.00)	SCMN SW	SCMZn.S	SCMN
New York (9.30 am–4.00 pm)	SCM US	SCM.N	SCM

The half-year report is available in English, German and French. The German version shall prevail.

Statements on the Future

The details contained in this report are statements on the future in accordance with page 27A of the U.S. Securities Act 1933 and page 21E of the U.S. Securities Exchange Act 1934, unless these details refer to facts concerning the past. This report contains statements on the future, e.g. statements regarding the implementation of strategic aims, future development of corporate operational performance and expenditure, anticipated levels of investment, market shares, growth rates etc. These statements are based on assumptions of future results, estimations and forecasts. Therefore, they should only be used as a basis for decision-making with certain reservations. They only reflect the knowledge available at the time they were made, and Swisscom assumes no obligation to update such statements on the basis of events which may occur at a later stage or information which subsequently becomes available. For a thorough description of elements of uncertainty and risks, see – "Statements on the Future", 20-F form for the annual report 1999.

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