

Interim report of Swisscom AG as per 31 March 2000:

Swisscom increases revenues and net income

In the first quarter of 2000, the Swisscom group increased revenues by 30.8% to CHF 3.4 billion as a result of its consolidation of debitel. Without debitel, revenues would have fallen by 3.7% compared to the same period in the previous year. Net income increased to CHF 2.1 billion thanks to the sale of Swisscom's holdings in Cablecom. However, fierce competition, increased costs as well as price erosion, primarily in fixed-line telephony, resulted in operating income of CHF 660 million, which is 29.8% less than for the same period last year. Overall, for the year 2000, Swisscom anticipates higher revenues and net income but a lower operating income.

In the first quarter of 2000, extraordinary circumstances led to an increase in net income. The sale of shares in Cablecom provided Swisscom with an income of CHF 1,335 million. Income from the sale of the Unisource holdings to D-Plus was CHF 220 million.

Public Com feels competition and price pressure – significant price reductions on 1 March 2000

Public Com covers access charges, national telephone traffic, outgoing international telephone traffic, value added and information services, customer equipment, payphone services and operator services. Public Com's revenues sank by 21% and the EBIT margin decreased from 35.6% to 28.1%. The fall in revenues and EBIT is due to price reductions, losses of market share as well as a fall in revenues from long distance and international traffic. The expansion of the local call area on 1 October 1999 is the main reason for the sharp reduction in national long-distance traffic. The growth in value-added services due in particular as part of the boom in Internet traffic could not offset this decrease.

To further improve its competitiveness, Swisscom drastically reduced its prices for fixed-line telephony on 1 March 2000. Compared to the fourth quarter of 1999, volumes remained stable in the first three months of 2000 for national and international long distance traffic. The strong demand for ISDN access lines continued: at the end of March, Swisscom had 1.5 million ISDN and 3.54 million analogue access lines. This meant that the total number of fixed-network lines surpassed the 5 million mark for the first time.

Mobile Com continues to gain customers – trail blazing mobile data services

Mobile Com covers mobile telephony services including the charges for the use of the network and the sales of corresponding equipment. With an increase in revenues of 16.1% to CHF 641 million, mobile communication in Switzerland continues to grow. And with a market share of around 70%, Swisscom is clearly the market leader. A total of 160,000 new customers were acquired in the first three months of 2000. The average monthly revenue per customer (ARPU) of CHF 71 was 19.3% lower than for the same period in the previous year. The reduction resulted primarily from the large increase in Natel easy customers (Prepaid Card).

Mobile Com's EBIT margin of 45% remained reasonably constant compared with the 45.3% of the first quarter of 1999. However, Swisscom expects a reduction of the margin in the near future due to intense competition. Swisscom is heading off its competitors by increasing its dealer commissions. With mobile data services, such as the WAP offer launched in February 2000, Swisscom is aiming for new growth potential. Swisscom will also bid for a third-generation mobile network licence (UMTS) as well as additional GSM frequencies in Switzerland.

Business Com under pressure from price erosion – new Internet Business Areas

Business Com covers leased line and data transmission services, corporate communications and communication equipment and installations. Revenues increased by 6.2% to CHF 342 million. The EBIT margin of Business Com sank from 16.2% to 0.5%. The cost of setting up IP platforms (Internet Protocol) required expenditure in the first quarter which has yet to return revenues. In addition, start-up costs in E-Business (e.g. E-Marketplace) placed a further burden on the income. In the first quarter, Swisscom announced the construction of a B2B-Online Marketplace and the creation of a special E-Unit. International leased line business is under constant and intense pressure from price erosion.

Wholesale and Carrier Services with lower interconnection prices

Wholesale and Carrier Services covers the utilisation of the Swisscom networks by other national and international telecommunications providers. The 53.9% increase in revenues to CHF 254 million is the result of the strong growth in national interconnection services. The EBIT margin of Wholesale and Carrier Services fell from 28.9% to 18% compared to the same period last year. Due to legislative regulations, new lower prices for national interconnection came into effect on 1 January 2000, which reduced the EBIT margin.

debitel with over 5 million customers in Europe – bid for UMTS-Licence

debitel, the company acquired by Swisscom in 1999, achieved revenues of CHF 893 million in the first quarter and an EBITDA of CHF 41 million. The number of customers increased by 56.4% to 5.36 million compared to the same period the previous year. The high growth rate is primarily due to successful business in Germany. Swisscom will bid for a further UMTS mobile licence in Germany together with debitel.

Blue Window increases its customer base by 37% to 443,000 in the first three months

The remaining segments covers international group companies (not including debitel), broadcasting, Blue Window as well as the leasing of buildings to third parties. The Internet provider Blue Window increased its customer base to 443,000 in the first quarter of 2000 and the number of monthly page views to more than 50 million. Customer growth amounts to a 37.3% increase in only three months. Blue Window was hived off on 1 May and will henceforth be known as Bluewin. Preparations are underway for an IPO in the second half of this year.

Increased operating expenses

Total operating expenses, excluding debitel, rose by 9.5% from CHF 1285 to CHF 1407 compared to the same period the previous year. The growth in revenues in Mobile Com led to increased roaming and materials costs of CHF 36 million. The costs for terminating calls in third-party networks increased by CHF 70 million compared to last year because of increased competition. If debitel is excluded, personnel expenses increased by CHF 549 million to CHF 577 million. Employee participation in the form of a share issue resulted in a one-off expenditure of CHF 39 million. Cost management continues to take top priority for the Executive Board. Swisscom plans a further reduction of 3000 jobs between 2001 and 2003 in Swiss core business as well as a similar number in the form of outsourcing.

Outlook 2000: lower operating results with increased revenues

The full consolidation of debitel will lead to a significant increase in revenues for the Swisscom group for the year 2000. The increased pressures on margins will, however, result in lower operating results. The measures taken for socially responsible reductions in the workforce in the current business year will also incur restructuring costs. Thanks to extraordinary transactions such as the sale of the Cablecom holding mentioned above as well as the planned sale of some real estate – providing market conditions remain the same – Swisscom expects an increase in net income.

Interim Report January – March 2000

Key figures

CHF in millions, except where indicated

		Unaudited	
		31.3.1999	31.3.2000
Swisscom Group			
Net revenues		2 589	3 386
Operating income before depreciation (EBITDA)		1 325	1 141
Operating income (EBIT)		940	660
Net income from continuing operations		631	1 996
Net income		631	2 065
Number of full-time equivalent employees at end of period	FTE	20 130	21 271
Average number of full-time equivalent employees	FTE	21 038	21 524
Revenue per employee	CHF in thousands	123	157
Net cash provided by operating activities		719	914
Capital expenditures		166	151
Investments in subsidiaries, affiliated companies and other non-current assets		33	(206)
Free cash flow		520	969

Net revenues

CHF in millions

	31.3.1999	31.3.2000
Access	337	337
National traffic revenue	566	405
International traffic revenue	256	112
Customer premises equipment	65	60
Value-added services	89	120
Other products	89	73
PublicCom	1 402	1 107
Mobile Com	552	641
Business Com	322	342
Wholesale and Carrier Services	165	254
debitel	-	893
Other revenues	148	149
Total net revenues	2 589	3 386

Public Com

Traffic volume in millions of minutes

Local area traffic

National long distance traffic

Other network traffic

Total National

International traffic

Traffic from value-added services

Traffic from other products

At period end, in thousands

PSTN channels

ISDN channels

Total channels

Unaudited

	31.3.1999	31.3.2000
Local area traffic	2 882	3 012
National long distance traffic	1 512	894
Other network traffic	210	252
Total National	4 604	4 158
International traffic	378	332
Traffic from value-added services	750	1 651
Traffic from other products	87	67
At period end, in thousands		
PSTN channels	3 826	3 539
ISDN channels	1 014	1 502
Total channels	4 840	5 041

Mobile Com

Number of customers (in thousands)

Average revenue per customer (in CHF)

	31.3.1999	31.3.2000
Number of customers (in thousands)	1 811	2 443
Average revenue per customer (in CHF)	88	71

the blue window

In thousands

Number of subscribers

	31.3.1999	31.3.2000
In thousands		
Number of subscribers	174	443

debitel

In thousands

Number of customers

	31.3.1999	31.3.2000
In thousands		
Number of customers	3 430	5 363

Consolidated income statement

CHF in millions

	Unaudited	
	31.3.1999	31.3.2000
Net revenues	2 589	3 386
Capitalized cost	21	14
Total	2 610	3 400
Goods and services purchased	352	1 001
Personnel expenses	549	630
Other operating expenses	384	628
Depreciation and amortisation	385	481
Total operating expenses	1 670	2 740
Operating income	940	660
Financial expense	(66)	(78)
Financial income	10	85
Income before income taxes, equity in net (loss) gain of affiliated companies and minority interest	884	667
Income tax expense	(207)	(179)
Income before equity in net (loss) gain of affiliated companies and minority interest	677	488
Equity in net (loss) gain of affiliated companies	(46)	1 511
Minority interest in loss of consolidated subsidiaries	-	(3)
Net income from continuing operations	631	1 996
Discontinuing operations	-	69
Net income	631	2 065
Basic and diluted earnings per share (in CHF)		
– on continuing operations	8.58	27.12
– on discontinuing operations	-	0.95
– net income	8.58	28.07

Consolidated balance sheet (condensed)

CHF in millions

	Unaudited	
	31.12.1999	31.3.2000
Assets		
Cash and cash equivalents	1 211	1 458
Other current assets	3 762	3 351
Total current assets	4 973	4 809
Property, plant and equipment	10 723	10 491
Goodwill and other intangible assets	3 339	3 237
Investments in affiliated companies	713	2 220
Other non-current assets	1 170	1 081
Total non-current assets	15 945	17 029
Total assets	20 918	21 838
Liabilities and shareholders' equity		
Short-term debt	4 049	3 351
Other current liabilities	3 846	3 370
Total current liabilities	7 895	6 721
Long-term debt	3 710	3 683
Other long-term liabilities	2 597	2 576
Total long-term liabilities	6 307	6 259
Total liabilities	14 202	12 980
Minority interest in subsidiaries	31	34
Shareholders' equity	6 685	8 824
Total liabilities and shareholders' equity	20 918	21 838

Consolidated cash flow statement (condensed)

CHF in millions

	Unaudited	
	31.3.1999	31.3.2000
Net cash provided by operating activities	719	914
Capital expenditures, net of proceeds from sale of fixed assets	(166)	(151)
Other cash flow from investment activities	(33)	206
Net cash from investing activities	(199)	55
Repayment of debt, net	(500)	(2 419)
Increase in debt payable to affiliated companies	-	1 697
Other cash flow from financing activities, net	(29)	-
Net cash used in financing activities	(529)	(722)
Net (decrease) increase in cash and cash equivalents	(9)	247
Cash and cash equivalents at beginning of year	1 759	1 211
Cash and cash equivalents at end of period	1 750	1 458

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 31 December 1998	1 839	2 273	1 232	-	1	2	5 347
Translation adjustments						(64)	(64)
Losses not recognised in income statement						(64)	(64)
Net income			631				631
Accrued pension cost adjustment			(339)				(339)
Balance at 31 March 1999	1 839	2 273	1 524	-	1	(62)	5 575
Balance at 31 December 1999	1 839	2 386	2 475	(1)	-	(14)	6 685
Translation adjustments						(24)	(24)
Losses not recognised in income statement						(24)	(24)
Net income			2 065				2 065
Purchase of treasury stock				(1)			(1)
Provision adjustment 1)			99				99
Balance at 31 March 2000	1 839	2 386	4 639	(2)	-	(38)	8 824

1) Effect of adoption of IAS 37 – Provisions, Contingent Liabilities and Contingent Assets

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 1, January 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 and options, are consistent with those used in the 1999 annual consolidated financial statements. Previously, the costs of employee shares and options were charged directly to capital. These costs are now charged to Personnel Expenses and amounted to CHF 39 million in the first 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 the blue window, as well as rental of buildings to third parties.

31 March 1999

CHF in millions	Public Com	Mobile Com	Business Com	Wholesale and Carrier Services	debitel	Other	Total
Net revenue from external customers	1 402	552	322	165	-	148	2 589
Intersegment net revenues	43	110	37	219	-	1	410
Net revenue	1 445	662	359	384	-	149	2 999
Segment expenses	930	362	301	273	-	71	1 937
Operating income before goodwill amortization	515	300	58	111	-	78	1 062
Goodwill amortization	-	-	-	-	-	1	1
Segment operating income	515	300	58	111	-	77	1 061
Corporate expenses not allocated							121
Operating income							940

31.3.2000

CHF in millions	Public Com	Mobile Com	Business Com	Wholesale and Carrier Services	debitel	Other	Total
Net revenue from external customers	1 107	641	342	254	893	149	3 386
Intersegment net revenues	56	133	24	246	-	30	489
Net revenue	1 163	774	366	500	893	179	3 875
Segment expenses	836	426	364	410	862	133	3 031
Operating income before goodwill amortization	327	348	2	90	31	46	844
Goodwill amortization	-	-	-	-	84	1	85
Segment operating income	327	348	2	90	(53)	45	759
Corporate expenses not allocated							99
Operating income							660

3. Equity in net (loss) gain of affiliated companies

The equity in net profit of affiliated companies relates 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, was CHF 1,368 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.

4. Debt

CHF in millions	Unaudited	
	31.12.1999	31.3.2000
Long term debt		
Swiss Post debt	4 200	3 500
Finance lease obligations	661	638
Other long term debt	73	69
Total	4 934	4 207
Less current portion	(1 224)	(524)
Total long term debt	3 710	3 683
Short term debt		
Short term loan	1 700	-
Current portion of long term debt	1 224	524
Employees savings deposits	675	664
Short term loans payable to affiliated companies	401	2 098
Other	49	65
Total short-term debt	4 049	3 351

Bern, 19 May 2000