

# QUARTERLY REPORT

JANUARY – SEPTEMBER 2000

## Key Figures

CHF in millions, except where indicated	unaudited	
	30.9.1999	30.9.2000
	1)	
<b>Swisscom Group</b>		
Net revenues	7 690	10 479
Operating income before depreciation (EBITDA)	3 526	3 199
Operating income (EBIT)	2 369	1 589
Net income from continuing operations	1 684	2 926
Net income	1 684	2 995
Number of full-time equivalent employees at end of period	FTE 19 446	20 883
Average number of full-time equivalent employees	FTE 20 057	21 116
Revenue per employee	CHF in thousands 383	496
Net cash provided by operating activities	2 687	3 062
Capital expenditures	836	734
Investments in subsidiaries, affiliated companies and other non-current assets, net	3 304	(241)
Free cash flow	(1 422)	2 625
CHF in millions		
<b>Net revenues</b>		
Access	1 036	1 041
National traffic revenue	1 551	1 108
Outgoing international traffic revenue	605	275
Customer premises equipment	185	170
Value-added services	300	359
Other products	223	192
<b>Public Com</b>	<b>3 900</b>	<b>3 145</b>
Mobile Com	1 747	2 114
Business Com	1 052	1 017
Wholesale and Carrier Services	516	880
debitel	–	2 865
Other revenues	475	458
<b>Total net revenues</b>	<b>7 690</b>	<b>10 479</b>
Call volumes in million minutes		
<b>Public Com</b>		
Local area traffic	7 925	8 220
National long-distance traffic	4 098	2 494
Traffic to other networks	659	780
<b>Total national traffic</b>	<b>12 682</b>	<b>11 494</b>
Outgoing international fixed-line traffic	1 054	977
Traffic from value-added services	2 601	5 091
Traffic from other products	244	186
At period end, in thousands		
PSTN (number of channels)	3 691	3 424
Total ISDN (number of channels)	1 232	1 679
<b>Total number of access channels</b>	<b>4 923</b>	<b>5 103</b>
<b>Mobile Com</b>		
Number of customers	in thousands 2 120	2 973
Average monthly revenue per customer	in CHF 85	73
<b>debitel</b>		
Number of customers	in thousands 4 234	7 399

1) debitel was acquired effective October 1, 1999 and is therefore not included in the prior period figures.

## Financial Report

**As of September 30, 2000 Swisscom had generated revenues of CHF 10,479 million, 36.3% more than in the same period of the previous year, CHF 2,865 million, reflecting revenue from debitel, which was consolidated for the first time in 2000. In a mobile market characterized by continuing growth Mobile Com succeeded in growing revenues by 21% to CHF 2,114 million. However, massive price reductions led to significantly lower revenues and margins in fixed-network telephony. At CHF 1,589 million, operating income (EBIT) is 32.9% down on the previous year. Gains from the sale of investments and a positive financial result have lifted net income to CHF 2,995 million.**

**Swisscom anticipates substantially lower operating income for 2000 on account of the trend in fixed-network telephony. However, thanks to the successful sale of investments a slight increase in net income is expected in comparison to the previous year.**

### Public Com

In fixed-network telephony, loss of market share and tariff reductions caused revenues to fall by 19.4% to CHF 3,145 million. The main declines in revenue were in national long-distance and international phone traffic. On October 1, 1999, the local area was expanded at the expense of the long-distance area. Value-added services continued to post strong growth in volume thanks to Internet traffic. In contrast, national and international traffic volumes each fell by approximately 10%. The number of ISDN accesses was again expanded in the third quarter. At end-September 2000 Swisscom reached 1.68 million ISDN channels. This corresponds to growth of 22.6% since the start of the year.

Massive tariff reductions resulted in a deterioration in the EBIT margin to 17.8% from 29.5% in the corresponding period of 1999. Public Com contributed CHF 594 million or 37.4% to the group's operating income, compared with just over 50% in the same period last year.

### Mobile Com

**Mobile Com** acquired 681,000 net new customers in the first nine months of 2000, 256,000 of which in Q3. With market share of around 67%, the number of customers stood at around 2.97 million as at September 30, 2000. Revenues rose by 21% on the previous year to CHF 2,114 million. This rate of growth will inevitably slow in view of increasing market saturation. Average revenue per month per user (ARPU) amounted to CHF 73 against CHF 85 in the same period of the previous year. A total of 418 million SMS messages were sent in 2000, more than three times the number sent in the first nine months of the previous year.

Mobile Com's EBIT margin fell from 47.4% in the prior period to 37.6%. This decline was caused by lower prices and higher customer acquisition costs than in the corresponding period last year.

Swisscom application to bid for a UMTS license was successful and it was admitted to the auction. Following the withdrawal of several bidders, the Federal Office of Communication (BAKOM) decided to postpone the auction of the four UMTS licenses. BAKOM is expected to announce details of the next stage in the procedure at the beginning of December 2000. The anticipated auction of additional GSM frequencies was cancelled and in October 2000, Swisscom and two competitors submitted applications for the available frequencies.

## Financial Report

### **Business Com**

Business Com achieved revenues of CHF 1,017 million by September 30, 2000, a decline of 3.3% on the same period of the previous year. Operating loss (EBIT) in 2000 amounted to CHF 18 million against operating income of CHF 33 million in the first nine months of 1999 primarily as a result of the set-up of IP (Internet protocol) platforms, which resulted in exceptionally high costs. Furthermore, revenues from PBXs fell by 10.9% to CHF 388 million. With revenues of CHF 420 million and an increase in revenues of 7.1% on the previous year, the leased-line business continued to exceed expectations. However, price reductions in the second half of 2000 will cause the growth in revenues to slow.

### **Wholesale and Carrier Services**

Revenues from Wholesale and Carrier Services increased dramatically by 70.5% in comparison with the same period of 1999, reaching CHF 880 million. National interconnection services and international carriers' carrier services contributed to the strong growth. Interconnection price reductions on the basis of regulatory guidelines resulted in a decline of the EBIT margin from 30.3% to 18.6%, despite higher volumes.

### **debitel**

debitel was fully consolidated as of October 1, 1999 and is therefore not included in last year's income statement. In the first nine months of 2000 debitel grew the number of its customers to 7.4 million. In Germany alone customer acquisitions of 2.3 million so far this year have taken the total number of customers to 5.4 million. At CHF 2,865 million, revenues are 30.9% up on the previous year. EBIT before amortization of goodwill is CHF 87 million. EBIT fell slightly in Germany because of increased customer acquisition costs. debitel's foreign business abroad also affected EBIT negatively due to the decline in operating margins.

### **Other**

The segment "Other" comprises the international group companies (excluding debitel), broadcasting, the ISP "bluewin", the business-to-business portal (Conextrade AG) and the rental of buildings to third parties. Operating income was negatively impacted by a total of CHF 39 million by start-up losses for bluewin AG and Conextrade. The bluewin IPO, scheduled to take place this autumn, has been postponed because of the situation on the capital markets.

### **Operating Expenditure**

Operating expenditure including depreciation expanded by CHF 3,577 million to CHF 8,954 million in the first nine months compared with the same period of 1999. CHF 3,026 million of this increase relates to debitel, including the amortization of goodwill. The rise in operating expenditure is mainly due to higher costs for terminating calls on the networks of other operators, the cost of roaming and customer acquisition costs in mobile communications (dealer commissions). Excluding debitel, personnel expenditure was cut by 3% compared with the same period of the previous year.

### **Financial Result and Income of Affiliated Companies**

A cross-border lease transaction concluded in the third quarter produced income of CHF 234 million (note 4). The sale of an 8% share of bluewin to tamedia generated CHF 80 million. These two transactions ensured a positive net financial result of CHF 189 million.

The year 2000 saw the successful sale of a number of investments. The sale of Cablecom generated a profit of CHF 1,335 million after tax. The liquidation of the shareholding in D Plus realized a pre-tax profit of CHF 196 million, while the sale of an interest in the German company tesion in Q3 generated a pre-tax profit of CHF 176 million.

## Financial Report

### **Income tax**

The effective tax rate was 31.7%, as against 24.8% for the same period of 1999. The main reason for the increase is the amortization of the goodwill of debitel, which is not tax-deductible. In addition, the income from the sale of the investment in tesion resulted in higher-than-usual taxation.

### **Outlook for 2000**

Thanks to the first-time consolidation of debitel, revenues in 2000 will grow considerably. Furthermore, revenues at Mobile Com will considerably exceed those of the previous year. Pressure on margins in fixed-network telephony continues. Revenues and operating income of Public Com will be markedly lower than in 1999. Further job losses will be necessary in the period 2001 – 2003. This will be reflected in restructuring costs in Q4 2000. Operating income (EBIT) will be considerably down on last year. A slight increase in net income is anticipated thanks to the successful one-time sales of investments and the positive financial result.

An agreement with Vodafone on a strategic partnership was signed at the beginning of November 2000 which will see Vodafone take a 25% stake in "Mobile Com AG" when it is set up. The purchase price of CHF 4.5 billion can be paid in shares and/or in cash (CHF 2.2 billion at closing and CHF 2.3 billion 12 months after closing). Closing is scheduled for 30 March, 2001. Closing is subject to the approval of the Swisscom Shareholders' Meeting and the monopolies commission. It is also conditional on "Mobile Com AG" being set up and Swisscom obtaining a UMTS license. In addition, a non-exclusive agreement as an enhanced service provider has been concluded for debitel with the Vodafone subsidiary D2 Mannesmann. This agreement secures access to UMTS technology for debitel in Germany.

## Consolidated income statement

CHF in millions	1.6.-30.9.1999	unaudited		1.1.-30.9.2000
		1.6.-30.9.2000	1.1.-30.9.1999	
<b>Net revenues</b>	<b>2 521</b>	<b>3 582</b>	<b>7 690</b>	<b>10 479</b>
Capitalized cost	20	40	56	64
<b>Total</b>	<b>2 541</b>	<b>3 622</b>	<b>7 746</b>	<b>10 543</b>
Goods and services purchased	447	1 149	1 156	3 334
Personnel expenses	516	534	1 639	1 755
Other operating expenses	549	849	1 425	2 255
Depreciation and amortization	340	617	1 157	1 610
<b>Total operating expenses</b>	<b>1 852</b>	<b>3 149</b>	<b>5 377</b>	<b>8 954</b>
<b>Operating income</b>	<b>689</b>	<b>473</b>	<b>2 369</b>	<b>1 589</b>
Financial expense	(67)	(109)	(191)	(242)
Financial income	10	273	38	431
<b>Income before income taxes, equity in net income of affiliated companies and minority interest</b>	<b>632</b>	<b>637</b>	<b>2 216</b>	<b>1 778</b>
Income tax expense	(171)	(242)	(550)	(565)
<b>Income before equity in net income of affiliated companies and minority interest</b>	<b>461</b>	<b>395</b>	<b>1 666</b>	<b>1 213</b>
Equity in net income of affiliated companies	22	181	18	1 721
Minority interest in loss of consolidated subsidiaries	-	(1)	-	(8)
<b>Net income from continuing operations</b>	<b>483</b>	<b>575</b>	<b>1 684</b>	<b>2 926</b>
Discontinued operations	-	-	-	69
<b>Net income</b>	<b>483</b>	<b>575</b>	<b>1 684</b>	<b>2 995</b>
<b>Basic and diluted earnings per share (in CHF)</b>				
- on continuing operations	6.57	7.82	22.90	39.78
- on discontinued operations	-	-	-	0.94
- net income	6.57	7.82	22.90	40.72

## Consolidated balance sheet (condensed)

CHF in millions	31.12.1999	<u>unaudited</u> 30.9.2000
<b>Assets</b>		
Cash and cash equivalents	1 211	2 281
Other current assets	3 762	3 288
<b>Total current assets</b>	<b>4 973</b>	<b>5 569</b>
Property, plant and equipment	10 723	10 047
Goodwill and other intangible assets	3 339	2 965
Investments in affiliated companies	713	2 058
Other non-current assets	1 170	2 571
<b>Total non-current assets</b>	<b>15 945</b>	<b>17 641</b>
<b>Total assets</b>	<b>20 918</b>	<b>23 210</b>
<b>Liabilities and shareholders' equity</b>		
Short-term debt	4 049	4 004
Other current liabilities	3 846	3 914
<b>Total current liabilities</b>	<b>7 895</b>	<b>7 918</b>
Long-term debt	3 710	4 032
Other long-term liabilities	2 597	2 725
<b>Total long-term liabilities</b>	<b>6 307</b>	<b>6 757</b>
<b>Total liabilities</b>	<b>14 202</b>	<b>14 675</b>
<b>Minority interest in subsidiaries</b>	<b>31</b>	<b>41</b>
<b>Total shareholders' equity</b>	<b>6 685</b>	<b>8 494</b>
<b>Total liabilities and shareholders' equity</b>	<b>20 918</b>	<b>23 210</b>

## Consolidated cash flow statement (condensed)

CHF in millions	unaudited	
	30.9.1999	30.9.2000
<b>Net cash provided by operating activities</b>	<b>2 687</b>	<b>3 062</b>
Capital expenditures	(836)	(734)
Acquisitions of subsidiaries and (purchase) sale of other non-current assets, net	(3 304)	241
Other cash flow from investment activities	31	56
<b>Net cash from investing activities</b>	<b>(4 109)</b>	<b>(437)</b>
Issuance (Repayment) of debt, net	1 162	(2 091)
Increase in debt payable to affiliated companies	-	1 684
Profit distribution paid	(809)	(1 103)
Other cash flow from financing activities, net	69	(45)
<b>Net cash used in financing activities</b>	<b>422</b>	<b>(1 555)</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(1 000)</b>	<b>1 070</b>
Cash and cash equivalents at beginning of year	1 759	1 211
<b>Cash and cash equivalents at end of period</b>	<b>759</b>	<b>2 281</b>

## Consolidated statement of shareholders' equity

unaudited

CHF in millions	Share capital	Additional paid-in capital	Retained earnings	Treasury stock	Market value adjustment on securities	Translation adjustment	Total
<b>Balance at December 31, 1998</b>	<b>1 839</b>	<b>2 273</b>	<b>1 232</b>	<b>-</b>	<b>1</b>	<b>2</b>	<b>5 347</b>
Translation adjustments	-	-	-	-	-	(19)	(19)
Net income	-	-	1 684	-	-	-	1 684
Dividend paid	-	-	(809)	-	-	-	(809)
Accrued pension cost adjustment	-	-	(339)	-	-	-	(339)
<b>Balance at September 30, 1999</b>	<b>1 839</b>	<b>2 273</b>	<b>1 768</b>	<b>-</b>	<b>1</b>	<b>(17)</b>	<b>5 864</b>
<b>Balance at December 31, 1999</b>	<b>1 839</b>	<b>2 386</b>	<b>2 475</b>	<b>(1)</b>	<b>-</b>	<b>(14)</b>	<b>6 685</b>
Market value adjustment on securities	-	-	-	-	3	-	3
Translation adjustments	-	-	-	-	-	(184)	(184)
Net income	-	-	2 995	-	-	-	2 995
Dividend paid	-	-	(1 103)	-	-	-	(1 103)
Purchased treasury stock	-	-	-	(1)	-	-	(1)
Provision adjustment <sup>1)</sup>	-	-	99	-	-	-	99
<b>Balance at September 30, 2000</b>	<b>1 839</b>	<b>2 386</b>	<b>4 466</b>	<b>(2)</b>	<b>3</b>	<b>(198)</b>	<b>8 494</b>

1) The application of IAS 37 "Provisions" has led to a reduction of long-term liabilities. These are stated in the balance sheet at their cash 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 Q1 2000.

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

### 2 Segment Information

As a result of various organizational 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" comprises, primarily, the international group companies (excluding debitel), broadcasting and bluewin, as well as the 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
30.9.1999							
Net revenues from external customers	3 900	1 747	1 052	516	–	475	7 690
Intersegment net revenues	148	343	100	504	–	–	1 095
<b>Net revenues</b>	<b>4 048</b>	<b>2 090</b>	<b>1 152</b>	<b>1 020</b>	<b>–</b>	<b>475</b>	<b>8 785</b>
Segment expenses	2 852	1 099	1 119	711	–	282	6 063
<b>Operating income before goodwill amortization</b>	<b>1 196</b>	<b>991</b>	<b>33</b>	<b>309</b>	<b>–</b>	<b>193</b>	<b>2 722</b>
Goodwill amortization	–	–	–	–	–	2	2
<b>Segment operating income</b>	<b>1 196</b>	<b>991</b>	<b>33</b>	<b>309</b>	<b>–</b>	<b>191</b>	<b>2 720</b>
<i>Margin in %</i>	<i>29.5</i>	<i>47.4</i>	<i>2.9</i>	<i>30.3</i>	<i>–</i>	<i>40.2</i>	<i>–</i>
Corporate expenses not allocated							351
<b>Operating income</b>							<b>2 369</b>

CHF in millions	<u>unaudited</u>						Total
	Public Com	Mobile Com	Business Com	Wholesale and Carrier Services	debitel	Other	
30.9.2000							
Net revenues from external customers	3 145	2 114	1 017	880	2 865	458	10 479
Intersegment net revenues	184	422	76	968	–	95	1 745
<b>Net revenues</b>	<b>3 329</b>	<b>2 536</b>	<b>1 093</b>	<b>1 848</b>	<b>2 865</b>	<b>553</b>	<b>12 224</b>
Segment expenses	2 735	1 577	1 111	1 504	2 778	414	10 119
<b>Operating income before goodwill amortization</b>	<b>594</b>	<b>959</b>	<b>(18)</b>	<b>344</b>	<b>87</b>	<b>139</b>	<b>2 105</b>
Goodwill amortization	–	–	–	–	248	2	250
<b>Segment operating income</b>	<b>594</b>	<b>959</b>	<b>(18)</b>	<b>344</b>	<b>(161)</b>	<b>137</b>	<b>1 855</b>
<i>Margin in %</i>	<i>17.8</i>	<i>37.6</i>	<i>(1.6)</i>	<i>18.6</i>	<i>(5.6)</i>	<i>24.8</i>	–
Corporate expenses not allocated							266
<b>Operating income</b>							<b>1 589</b>

### 3 Debt

CHF in millions	31.12.1999	<u>unaudited</u> 30.9.2000
<b>Long-term debt</b>		
Swiss Post debt	4 200	3 500
Finance lease obligation	661	2 238
Other long-term debt	73	88
<b>Total</b>	<b>4 934</b>	<b>5 826</b>
Less current portion	(1 224)	(1 794)
<b>Total long-term debt</b>	<b>3 710</b>	<b>4 032</b>
<b>Short-term debt</b>		
Short-term loan	1 700	–
Current portion of long-term debt	1 224	1 795
Employee savings deposits	675	616
Short-term loans payable to affiliated companies	401	1 456
Other short-term debt	49	137
<b>Total short-term debt</b>	<b>4 049</b>	<b>4 004</b>

### 4 lease

In September 2000, Swisscom entered into a cross-border lease arrangement with certain foreign investors and received a fee of CHF 234 million. Under the terms of the agreement, Swisscom incurred CHF 3,522 million of debt and received CHF 3,522 million, including fee. Swisscom defeased CHF 1,716 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 and no gain or loss was recognized. CHF 1,263 million in assets and liabilities were not defeased and are included in the balance sheet. The remaining liability of CHF 309 million will be repaid over the lease period. 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. The Standing Interpretations Committee (SIC) of the IASC has issued a draft interpretation D27 "Transactions in the legal form of a lease and

leaseback". The removal of the asset and liability that were not defeased at a future date will be dependant on the final conclusion drawn in the interpretation. It is not yet known when the interpretation will be finalized.

## **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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