# CONSOLIDATED FINANCIAL STATEMENTS

JANUARY–JUNE 2001

# Key Figures

| In CHF millions, except where indicated | | 30.6.2000 | 30.6.2001 (unaudited) |
|---|---|---|---|
| **Swisscom Group** | | | |
| Net revenue | | 6 832 | 7 023 |
| Operating income before depreciation (EBITDA) before gain on sale of real estate | | 2 106 | 2 280 |
| EBITDA (as % of net revenue) | % | 30.8 | 32.5 |
| Operating income (EBIT) before gain on sale of real estate | | 1 113 | 1 211 |
| Gain on sale of real estate | | – | 524 |
| Gain on partial sale of Swisscom Mobile AG | | – | 3 887 |
| Net income | | 2 416 | 5 358 |
| Number of full-time equivalent employees at end of period | FTE | 21 028 | 20 189 |
| – thereof debitel | FTE | 2 740 | 3 245 |
| Net cash provided by operating activities | | 2 103 | 1 598 |
| Capital expenditures | | 419 | 483 |
| Investments in subsidiaries and affiliated companies, net | | 1 460 | (450) |
| Free cash flow | | 3 326 | 3 221 |
| Net debt (net funds) | | 4 954 | (1 020) |

In CHF millions

| | | |
|---|---|---|
| **Net revenue** | | |
| Fixnet Retail and Network | 1 561 | 1 533 |
| Fixnet Wholesale and Carrier Services | 633 | 646 |
| Enterprise Solutions | 924 | 895 |
| Mobile | 1 289 | 1 528 |
| debitel | 1 861 | 1 896 |
| Other revenue | 564 | 525 |
| **Total net revenue** | **6 832** | **7 023** |

In millions of minutes[1]

| | | |
|---|---|---|
| **Voice Call Volumes** | | |
| Local area traffic | 5 713 | 5 113 |
| National long-distance traffic | 1 686 | 1 651 |
| Traffic to other networks | 511 | 571 |
| **Total national traffic** | **7 910** | **7 335** |
| International traffic | 652 | 695 |
| Traffic from value-added services | 3 308 | 4 755 |
| Traffic from other products | 124 | 114 |
| **Total** | **11 994** | **12 899** |

At period end, in thousands

| | | | |
|---|---|---|---|
| PSTN (number of lines) | | 3 479 | 3 257 |
| ISDN (number of channels) | | 1 610 | 1 890 |
| **Total number of access channels** | number | **5 089** | **5 147** |
| **Swisscom Mobile AG** | | | |
| Number of postpaid customers | in thousands | 1 693 | 2 055 |
| Number of prepaid customers | in thousands | 1 027 | 1 372 |
| **Total number of customers** | | **2 720** | **3 427** |
| **debitel** | | | |
| Number of customers | in thousands | 6 278 | 9 510 |
| – thereof in Germany | in thousands | 4 467 | 7 350 |

[1] Represents traffic generated by Fixnet Retail and Network and Enterprise Solutions.

# Swisscom "Moving against the trend; solid as a rock"

**Dear Shareholder,**

**Swisscom's slogan *'moving a changing world'* becomes ever more true. The world for telecommunication companies is changing in an unprecedented way. Turmoil continues in the capital markets affecting many companies. In this environment, one of the few constants appears to be Swisscom's robust performance and consistent focus. The capital markets seem to appreciate this performance: until early August this year Swisscom and debitel were the only stocks that gained value, whereas all other stocks in the sector came down substantially – *"moving against the trend".***

**Revenue, and especially EBITDA (Earnings Before Interest, Tax, Depreciation and Amortization) and Operating Profit (EBIT), were all above those of the same period in 2000. Net profit increased more than twofold to CHF 5.4 billion. Net debt of CHF 2.9 billion at year end 2000 was turned around into a net funds position of CHF 1.0 billion. Results that make a difference: Swisscom is now one of the very few companies in the telco universe to have an extremely strong balance sheet; a balance sheet created through careful management based on strong investment principles and careful selection of opportunities – *"solid as a rock".***

## Our Beliefs & Strategy

During the first months of 2001, we have gone through a major exercise in reviewing our strategy. This has resulted in a confirmation of our direction and set of beliefs which we would like to share with you:

- *we do not have global ambitions* – our domestic market remains key to us. Switzerland is where we create the most substantial part of our cash flows. Growth opportunities outside Switzerland will therefore be in certain submarkets.
- *no merger of equals* – Swisscom does not believe in the business rationale of a merger with other European telecom operators at parent level, due to its complexity and limited synergies for major parts of the businesses (such as fixed line)
- *clear strategic investment focus* – realizing growth (domestically and internationally) requires a clear return orientation based on priorities for allocation of cash to investment opportunities:
  - firstly, to invest in improvements in the core business;
  - secondly, to invest in organic growth of the core; and
  - finally, to invest in non-organic growth (both domestic and international)
- *access to scale* – acquisition and consolidation to achieve scale benefits is not the only approach. Swisscom knows that scale is not equally important in all businesses and thinks that where it is important, there can be other ways to get these benefits. For example through strategic partnering as we have done in Swisscom Mobile AG, where Vodafone plc, which now holds a 25% stake, provides access to its scale advantages as the largest mobile operator.
- *systematic opportunity screening* – in both the data and (mobile) service providing businesses we have been, and are, looking for growth opportunities. We believe acquisitions in those fields can make sense for Swisscom, if we can wholly satisfy our investment criteria.

So, what are these criteria? For us, it is quite simple. In order to invest we have to believe in five things:

- *strategic fit:* if we can't explain to our shareholders why we should do it instead of them investing directly, there is no reason why Swisscom should acquire
- *a viable business model:* we have to be convinced of the sustainability and long-term cash generating prospects of a business.
- *good management:* the leadership of the target company, especially the executive team, has to have a proven track record to be able to run their business and potentially contribute to other parts of the Swisscom Group.
- *good value:* the price paid needs to be fully justified through thorough analysis. We consider the next 12 months at least to be a buyers market.
- *size of transaction:* although Swisscom has substantial funding potential, our philosophy cautions us against betting the future of the Group on one single horse. We do not believe it is in the interest of our shareholders to substantially change the risk profile of Swisscom through one single acquisition.

During the first half of 2001 we have actively and systematically screened the market, and consistently applied our thinking to several potential acquisition targets. At this point, the rather sobering conclusion after the first six months is, that we have not found a compelling opportunity that would have satisfied our criteria.

At the same time, our balance sheet strength has further improved. Partially, thanks to our strong operating cash from our domestic market, but also due to extraordinary income from the transaction with Vodafone plc and the sale of real estate, we now have a net funds position for the first time in our history. Having more cash at hand than debt, many of you raise the question as to how we intend to make use of this under-leveraged balance sheet.

# Swisscom "Moving against the trend; solid as a rock"

We intend to continue to scan the market for upcoming acquisition opportunities. At the same time we judge the likelihood of doing a sizeable transaction that satisfies all our criteria as limited, especially in the field of data communication. Therefore, we continue to see a share buyback program as an option. A program tailored to:

- create an optimized balance sheet, thereby reducing our weighted cost of capital
- keep sufficient funding flexibility for the company for potential acquisitions
- satisfy the requirements of all shareholders in a non-discriminatory way

We consider that our responsibility to our shareholders is to increase the company's value. Value to us is driven by the power to generate cash, which is after all, the single most strategic asset.

### First Half 2001 results

During the first half of 2001, we managed to show a set of good results. Both, operationally and financially:

- we made progress in the restructuring of the company into different business lines. The majority of these have been, or will be over the next period, established as separate legal entities. This emphasizes our belief that these are separate businesses, that share commonalities. Next to our strong Swisscom brand, the 'Swisscommons' are common values that form the basis for leadership and a consistent set of missions for the group companies. The increased transparency and clearly defined management responsibilities (including income statement accountability) bring focus and market orientation
- we closed an important deal with Vodafone, which now holds a 25% stake in Swisscom Mobile AG for a consideration of CHF 4.5 billion. Apart from the cash, the cooperation with Vodafone will bring important benefits: to our customers (in terms of new product offerings) and to the company (in terms of savings on product development and purchasing for network roll out)
- debitel managed to sign important agreements or letters of intent, with the 3 largest network operators in Germany, ensuring access to UMTS through an enhanced service providing model
- we successfuly sold a large part of our real estate portfolio, freeing up CHF 2.6 billion of cash out of non-core assets
- we generated consolidated revenues of CHF 7.0 billion, up 2.8% compared to last year, despite the significant price cuts of March 2000
- we generated consolidated Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) of almost CHF 2.3 billion, representing a margin of 32.5% and an increase of 8.3% compared to the same period last year
- we generated net profit of CHF 5.4 billion, or CHF 72.85 per share, more than twice last year's interim profit
- we had an Operating cash flow of CHF 1.6 billion

### Outlook

During the first half of 2001, we exceeded our own expectations. This is largely a result of our new, clearer focus. However, the market situation and strong cost control also contributed to these results. Nevertheless, the threat of price cuts (both on fixed and mobile) remains, in the medium and long-term. However Swisscom's pricing policy will stay unchanged: we will not cut prices first, but will follow in a determined way should competition do so.

If market circumstances and pricing do not change substantially, our aim is to achieve a similar EBITDA as last year.

Net profit in 2001 will be further boosted through the extraordinary income from the Vodafone deal and the sale of real estate.

With our dedicated and continued focus on investments that generate cash, we feel your money is put sensibly at work. To the extent we cannot ensure such investment opportunities, we plan to return this cash to you, so that you can put it at work.

**Our trend is unchanged: Swisscom – solid as a rock.**

Yours sincerely

| | |
|---|---|
| Dr Markus Rauh | Jens Alder |
| Chairman of the Board of Directors | CEO |

# Financial Review

**Swisscom posted revenue of CHF 7,023 million for the first half of 2001, representing an increase of 2.8% compared to the same period in the previous year. This growth is due primarily to the continued positive development of Mobile. Mobile revenue increased by 18.5% to CHF 1,528 million. Operating income before interest, tax and depreciation (EBITDA) of CHF 2,280 million increased by 8.3% compared to the previous year. Mobile was again the main contributor to the growth. However, lower operating income was recorded in fixed telephony. Operating income (before the gain on the sale of real estate) of CHF 1,211 million was 8.8% higher than in 2000.**

**The sale of a 25% shareholding in Swisscom Mobile AG to Vodafone plc was completed at the end of March 2001. Swisscom recorded a gain on the sale of CHF 3,887 million. Swisscom also recorded a gain of CHF 524 million on the sale of real estate. As a result of these transactions, net income for the first half year increased significantly to CHF 5,358 million.**

**As at June 30, 2001, Swisscom had a net funds position of CHF 1,020 million in the balance sheet.**

**For 2001 as a whole, Swisscom anticipates a slight growth in revenue and EBITDA in line with the previous year. The gains recorded on the sale of the 25% shareholding in Swisscom Mobile AG and on the two agreements relating to the sale of real estate will lead to a marked increase in net income.**

**Fixnet Retail and Network**

| In CHF millions | 30.6.2000 | 30.6.2001 |
|---|---|---|
| Net revenue from external customers | 1 561 | 1 533 |
| Intersegment revenue | 1 143 | 1 030 |
| **Net revenue** | **2 704** | **2 563** |
| EBITDA | 914 | 862 |
| *Margin as % of net revenue* | *33.8%* | *33.6%* |

Despite tariff reductions, revenue only decreased by 1.8% year-on-year to CHF 1,533 million. Revenue from telephony traffic decreased by 9.9% to CHF 552 million, in particular in the areas of national long-distance and international traffic. As a result of the tariff reductions introduced on March 1, 2000 and a loss of market share, revenue from national long-distance traffic declined by 24.1% to CHF 85 million and revenue from international traffic declined by 15.5% to CHF 93 million. However, the value-added services area performed well. As a result of substantial growth in Internet traffic, revenue increased by 34.8% to CHF 151 million. The ISDN access business also generated growth in revenue of 3.5% to CHF 559 million.

Compared with the previous year, national telephony traffic volume fell by 7.8% while international traffic volume rose by 2.4%. The number of ISDN connections continued to rise.

As a result of the positive development in the value-added services area as well as savings in personnel costs, the EBITDA margin remained stable despite the tariff reductions in telephony traffic.

**Fixnet Wholesale and Carrier Services**

| In CHF millions | 30.6.2000 | 30.6.2001 |
|---|---|---|
| Net revenue from external customers | 633 | 646 |
| Intersegment revenue | 705 | 987 |
| **Net revenue** | **1 338** | **1 633** |
| EBITDA | 74 | 90 |
| *Margin as % of net revenue* | *5.6%* | *5.5%* |

Compared with the previous year, revenue grew by 2% to CHF 646 million, primarily as a result of an increase in revenue from national interconnection services for other operators and an increase in revenue generated by international subsidiaries. However, revenue from incoming international traffic decreased due to a decline in termination prices in the market as a whole.

## Enterprise Solutions

| In CHF millions | 30.6.2000 | 30.6.2001 |
|---|---|---|
| Net revenue from external customers | 924 | 895 |
| Intersegment revenue | 52 | 45 |
| **Net revenue** | **976** | **940** |
| | | |
| EBITDA | 134 | 125 |
| *Margin as % of net revenue* | *13.7%* | *13.3%* |

Compared to the previous year, segment revenue decreased by 3.1% to CHF 895 million. As a result of the tariff reductions introduced on March 1, 2000 and the loss of market share, revenue from telephony traffic declined by 9.6%. Revenue from Corporate Communication Solutions increased by 29.3% to CHF 106 million and revenue from value-added services increased by 57.9% to CHF 60 million. Revenue from the data business was 6.6% lower at CHF 382 million. In particular, sustained price pressure led to a decrease in revenue of 14.7% from the leased line business to CHF 203 million.

As a result of the positive performance in Corporate Communication Solutions and value-added services as well as lower costs, the EBITDA margin remained at the same level as the previous year.

## Mobile

| In CHF millions | 30.6.2000 | 30.6.2001 |
|---|---|---|
| Net revenue from external customers | 1 289 | 1 528 |
| Intersegment revenue | 369 | 424 |
| **Net revenue** | **1 658** | **1 952** |
| | | |
| EBITDA | 733 | 937 |
| *Margin as % of net revenue* | *44.2%* | *48.0%* |

With an increase in revenue of 18.5% to CHF 1,528 million compared with the first half year 2000 and an increase of 2.4% compared with the first quarter of 2001, Mobile remains Swisscom's growth business. Some 259,000 new customers were acquired in the first six months of the year, bringing the customer base to 3.43 million at June 30, 2001. The proportion of prepaid customers rose by 2.3 percentage points to 40% in the first half of 2001. ARPU (Average revenue per user) of CHF 83 is below the 2000 figure of CHF 89 as new customers telephone less on average. Revenue in the voice business increased by 23.9% to CHF 1,030 million compared to the same period in the previous year as a result of the increase in the number of customers. A total of 1,195 million text messages were sent in the first half of 2001. However, SMS volume flattened out in the second quarter of the year. Roaming revenue was below the level in the previous year, primarily as a result of the expansion of competitors' networks and loss of market share.

The EBITDA margin increased from 44.2% to 48% despite a 10.7% increase in operating expenses year-on-year. Growth in customer and traffic volume resulted in a direct increase in the cost of goods and services purchased and in an indirect increase in personnel expenses due to the growth-related increase in employees. However, customer acquisition and retention costs decreased by 18.9% compared with the previous year. Following the sale of 25% of Swisscom Mobile to Vodafone on March 30, 2001, 25% of the profits are allocated to minorities.

**debitel**

| In CHF million | 30.6.2000 | 30.6.2001 |
|---|---|---|
| **Net revenue** | **1 861** | **1 896** |
| EBITDA | 73 | 93 |
| *Margin as % of net revenue* | *3.9%* | *4.9%* |

debitel revenue increased by 1.9% to CHF 1,896 million year-on-year. Local currency growth (EUR) amounted to 4.6%. The growth in revenue is due to the expansion of the customer base by 10.5% to 9.5 million in the first half of 2001 despite the slowdown in customer growth. The small increase in revenue compared to the previous year is due to price reductions and the strong growth of "prepaid" customers in the prior year, who telephone less on average. EBITDA was 27.4% higher than the previous year at CHF 93 million.

A number of steps were introduced to increase the revenue from the international business. In addition to changing the business model in France, the 48% holding in debitel Belgium was sold. In July 2001, debitel increased its interest in debitel Netherlands to 100%. The international business made a positive contribution to the Group result in the first half of 2001.

In the first half of 2001, debitel succeeded in safeguarding both the expansion of its existing business model for mobile telephony as well as its participation in the UMTS market through agreements and declarations of intent with D2 Vodafone, T-Mobile and E-Plus Mobilfunk.

Under the terms of a purchase agreement concluded in October 1999, two shareholders were granted an option to put 20% of debitel's outstanding shares to Swisscom. In January 2001, one of the shareholders exercised their option on 10% of the shares for CHF 468 million. This acquisition was accounted for under the purchase method and goodwill amounting to CHF 458 million was recorded. In July 2001, the other shareholder exercised their option on 10% of the shares for CHF 460 million. This transaction resulted in goodwill of CHF 448 million, which will be recorded in the third quarter 2001.

**Other**

| In CHF millions | 30.6.2000 | 30.6.2001 |
|---|---|---|
| Net revenue from external customers | 564 | 525 |
| Intersegment revenue | 63 | 99 |
| **Net revenue** | **627** | **624** |
| EBITDA | 72 | 115 |
| *Margin as % of net revenue* | *11.4%* | *18.4%* |

Revenue fell by 6.9% to CHF 525 million compared with the previous year. This was primarily as a result of the decline in revenue from PBX services (sale, rental and service of customer premises equipment) which decreased by 22.8% to CHF 230 million.

As a result of an increase in subscribers and traffic volume, the Internet service provider bluewin, increased its net revenue (including intersegment revenue) by 17.2% to CHF 68 million. bluewin has a market share of approximately 41%. The number of subscribers in the first half of 2001 increased by 16.9% to 642,715, although there was a slowdown in growth in the second quarter and bluewin recorded negative EBITDA of CHF 14 million. The consolidation of Swisscom Directories contributed to the increase in EBITDA of the segment "Other". Swisscom Directories is consolidated since October 2000.

**Gains on the disposal of shareholding in Swisscom Mobile AG**

The agreement governing the purchase by Vodafone plc of a 25% share in Swisscom Mobile AG was concluded on March 30, 2001. In compliance with the terms of the agreement, Vodafone paid a first tranche of CHF 2,200 million less transaction costs. The remaining CHF 2,300 million plus interest is payable within 12 months, whereby Vodafone has the option of payment in the form of cash, Vodafone shares or a combination of the two. Net selling price after deducting transaction costs of CHF 168 million (cost of sale of shares in the first tranche, stamp duty on new issuance of shares and consulting fees) was CHF 4,332 million and the gain recorded was CHF 3,887 million. See Note 4 in the notes to the interim statements.

**Income tax expense**

The tax rate in the first half year 2001 was only 3.3%. This exceptionally low rate is primarily attributable to the gain on the sale of the shares of Swisscom Mobile AG as well as a portion of the gain on the sale of real estate being exempt from taxes. See notes 4 and 6 in the notes to the interim statements. Disregarding these effects the effective tax rate was 27.3%.

**Equity in net loss of affiliated companies**

Included within the result of affiliated companies is an impairment of goodwill of CHF 30 million relating to two Swisscom shareholdings held by bluewin. See Note 5 in the notes to the interim statements.

In 2000 the sale of the subsidiaries and affiliates of Cablecom resulted in a gain of CHF 1,335 million.

**Sale of real estate**

In the first half of 2001, two agreements were signed for the sale of real estate comprising 196 properties for CHF 2,585 million. At the same time, Swisscom entered into agreements to lease back some of the sold property space.

The total gain on the sale of these properties after transaction costs and including the reversal of environmental provisions, was CHF 807 million. A number of the leaseback agreements qualify as finance leases and the gain on the sale of these properties will be deferred and released to income over the individual lease terms. As at June 30, 2001, Swisscom recorded a pre-tax gain of CHF 524 million on the sale of the other properties.

**Outlook for 2001**

Swisscom expects a slight increase in revenue for the current financial year, compared with 2000. Growth in Mobile and debitel will flatten out due to the high penetration rate already achieved in mobile telephony. Swisscom also expects its market share in fixed telephony traffic to fall less sharply. However, certain segments of the fixed line telephony, data and mobile telephony businesses will have to contend with sustained pressure on prices. If market conditions do not change significantly in the second half of the year, Swisscom expects EBITDA in line with the previous year. The gains recorded on the sale of the 25% shareholding in Swisscom Mobile AG and on the two agreements relating to the sale of real estate will lead to a marked increase in net income.

# Consolidated income statement

| In CHF millions | 1.4.–30.6.2000 | 1.4.–30.6.2001 | 1.1.–30.6.2000 | 1.1.–30.6.2001 |
|---|---|---|---|---|
| | | unaudited | | |
| **Net revenue** | **3 477** | **3 508** | **6 832** | **7 023** |
| Capitalized cost | 10 | 34 | 24 | 65 |
| **Total** | **3 487** | **3 542** | **6 856** | **7 088** |
| Goods and services purchased | 1 142 | 1 073 | 2 112 | 2 104 |
| Personnel expenses | 593 | 589 | 1 224 | 1 194 |
| Other operating expenses | 786 | 805 | 1 414 | 1 510 |
| Depreciation | 429 | 436 | 825 | 884 |
| Amortization | 83 | 92 | 168 | 185 |
| **Total operating expenses** | **3 033** | **2 995** | **5 743** | **5 877** |
| Gain on sale of real estate | – | 524 | – | 524 |
| **Operating income** | **454** | **1 071** | **1 113** | **1 735** |
| Gain on partial sale of Swisscom Mobile AG | – | – | – | 3 887 |
| Financial expense | (68) | (69) | (146) | (163) |
| Financial income | 125 | 102 | 171 | 174 |
| **Income before income taxes, equity in net income of affiliated companies and minority interests** | **511** | **1 104** | **1 138** | **5 633** |
| Income tax expense | (145) | (173) | (324) | (186) |
| **Income before equity in net income of affiliated companies and minority interest** | **366** | **931** | **814** | **5 447** |
| Equity in net income (loss) of affiliated companies | (10) | 17 | 1 540 | (7) |
| Minority interest | (4) | (73) | (7) | (82) |
| **Net income from continuing operations** | **352** | **875** | **2 347** | **5 358** |
| Discontinued operations | – | – | 69 | – |
| **Net income** | **352** | **875** | **2 416** | **5 358** |
| **Basic and diluted earnings per share (in CHF)** | | | | |
| – on continuing operations | 4.79 | 11.90 | 31.91 | 72.85 |
| – on discontinued operations | – | – | 0.94 | – |
| – net income | 4.79 | 11.90 | 32.85 | 72.85 |

# Consolidated balance sheet (condensed)

| In CHF millions | 31.12.2000 | unaudited<br>30.6.2001 |
|---|---|---|
| **Assets** | | |
| | | |
| Cash and cash equivalents | 2 265 | 3 781 |
| Other current assets | 3 957 | 5 352 |
| Receivable against Vodafone | – | 2 300 |
| **Total current assets** | **6 222** | **11 433** |
| | | |
| Property, plant and equipment | 9 946 | 8 427 |
| Goodwill and other intangible assets | 3 047 | 3 327 |
| Investments in affiliated companies | 512 | 584 |
| Other financial assets | 2 337 | 3 211 |
| Deferred tax assets | 51 | 940 |
| **Total non-current assets** | **15 893** | **16 489** |
| | | |
| **Total assets** | **22 115** | **27 922** |
| | | |
| **Liabilities and shareholders' equity** | | |
| | | |
| Short-term debt | 2 685 | 1 909 |
| Other current liabilities | 4 267 | 4 706 |
| **Total current liabilities** | **6 952** | **6 615** |
| | | |
| Long-term debt | 3 894 | 4 188 |
| Other long-term liabilities | 2 638 | 2 872 |
| **Total long-term liabilities** | **6 532** | **7 060** |
| | | |
| **Total liabilities** | **13 484** | **13 675** |
| | | |
| **Minority interest in subsidiaries** | **61** | **566** |
| | | |
| **Total shareholders' equity** | **8 570** | **13 681** |
| | | |
| **Total liabilities and shareholder's equity** | **22 115** | **27 922** |

# Consolidated cash flow statement (condensed)

| In CHF millions | 30.6.2000 | unaudited<br>30.6.2001 |
|---|---|---|
| **Operating income before depreciation (EBITDA)** | **2 106** | **2 280** |
| Change in net operating assets and other cash flows from operating activities | (3) | (682) |
| **Net cash provided by operating activities** | **2 103** | **1 598** |
| Capital expenditures | (419) | (483) |
| Proceeds from sale of real estate | – | 2 306 |
| Proceeds from partial sale of Swisscom Mobile AG | – | 2 032 |
| Investments in subsidiaries and affiliated companies, net | 1 460 | (450) |
| Investments in securities and fixed-term deposits | 10 | (1 722) |
| Other cash flows from investing activities | 172 | (60) |
| **Net cash from investing activities** | **1 223** | **1 623** |
| Repayment of debt, net | (2 114) | (896) |
| Distribution of net income | (1 103) | (809) |
| **Net cash used in financing activities** | **(3 217)** | **(1 705)** |
| **Net increase in cash and cash equivalents** | **109** | **1 516** |
| Cash and cash equivalents at beginning of year | 1 211 | 2 265 |
| **Cash and cash equivalents at end of period** | **1 320** | **3 781** |

# Consolidated statement of shareholders' equity

| In CHF millions | Share capital | Additional paid-in capital | Retained earnings (unaudited) | Treasury stock | Fair value and other reserves | Total |
|---|---|---|---|---|---|---|
| **Balance at December 31, 1999** | **1 839** | **2 395** | **2 466** | **(1)** | **(14)** | **6 685** |
| Translation adjustments | – | – | – | – | (111) | (111) |
| Change in accounting policy for stock options | – | – | (17) | – | – | (17) |
| Effect of adopting IAS 37 | – | – | 56 | – | – | 56 |
| Net income | – | – | 2 416 | – | – | 2 416 |
| Distribution of net income | – | – | (1 103) | – | – | (1 103) |
| Purchased treasury stock | – | – | – | (1) | – | (1) |
| **Balance at June 30, 2000** | **1 839** | **2 395** | **3 818** | **(2)** | **(125)** | **7 925** |
| | | | | | | |
| **Balance at December 31, 2000** | **1 839** | **2 395** | **4 559** | **(1)** | **(222)** | **8 570** |
| Translation adjustments | – | – | – | – | 29 | 29 |
| Fair value adjustment on securities | – | – | – | – | 446 | 446 |
| Effect of adopting IAS 39 | – | – | – | – | 87 | 87 |
| Net income | – | – | 5 358 | – | – | 5 358 |
| Distribution of net income | – | – | (809) | – | – | (809) |
| **Balance at June 30, 2001** | **1 839** | **2 395** | **9 108** | **(1)** | **340** | **13 681** |

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.

Swisscom adopted IAS 39 at January 1, 2001. In accordance with the transitional requirements of IAS 39, prior year figures have not been restated. Swisscom recorded a gain of CHF 87 million, net of deferred income taxes of CHF 29 million, in fair value reserves at January 1, 2001. In the second quarter 2001, fair value gains on available-for-sale investments amounting to CHF 446 million, net of deferred income taxes of CHF 149 million, were recorded directly to fair value reserves.

Effective January 1, 2001, Swisscom changed its accounting for stock options granted to employees and members of the Executive Board and Board of Directors. Stock options and stock appreciation rights are now valued at market value on the grant date and recorded over the full vesting period under personnel expenses. The change applies retrospectively to January 1, 2000 in line with the provisions stated under IAS 8. Swisscom recorded a loss of CHF 17 million, net of deferred income taxes of CHF 6 million, at January 1, 2000 against retained earnings.

# Notes to the consolidated interim statements

**1 Accounting principles**

The unaudited consolidated interim statements have been drawn up in accordance with International Accounting Standard (IAS) 34 "Interim Financial Report". Effective January 1, 2001, Swisscom adopted IAS 39 "Financial Instruments: Recognition and Measurement" and changed its accounting for stock options granted to employees and members of the Executive Board and Board of Directors. See consolidated statement of shareholders' equity. Otherwise the same accounting principles apply as used for the consolidated financial statements for 2000.

Individual figures for the previous year have been restated to facilitate comparison.

**2 Results by segment**

As a result of organizational changes the segments have been redefined compared with the previous year. Last year's figures have been restated to reflect the new structure.

The "Fixnet Retail and Network" segment covers "Traffic and Access" (access charges, national and international telephone traffic), customer premises equipment and value-added services. The segment also contains payphone services, operator services and cards for retail customers.

"Fixnet Wholesale and Carrier Services" covers utilization of the Swisscom fixed network by other national and international telecommunication providers as well as the Wholesale activities of international subsidiaries in Europe and the USA.

"Enterprise Solutions" covers "Traffic and Access" (access charges, national and international telephone traffic, value-added services), leased lines and communication solutions for business customers.

"Mobile" covers the provision of mobile telephone, data and value-added services including network utilization charges.

The "debitel" segment reflects the business activities of debitel-group.

The segment "Other" covers mainly PBX Services, bluewin AG, Swisscom Directories AG, conextrade AG, Telecom FL AG and property rentals to third parties.

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| In CHF millions<br>30.6.2000 | Fixnet<br>Retail and Network | Fixnet<br>Wholesale and Carrier Services | Enterprise Solutions | Mobile | debitel | Other | Total |
|---|---|---|---|---|---|---|---|
| Net revenue from external customers | 1 561 | 633 | 924 | 1 289 | 1 861 | 564 | 6 832 |
| Intersegment net revenue | 1 143 | 705 | 52 | 369 | – | 63 | 2 332 |
| **Net revenue** | **2 704** | **1 338** | **976** | **1 658** | **1 861** | **627** | **9 164** |
| Segment expenses | (1 790) | (1 264) | (842) | (925) | (1 788) | (555) | (7 164) |
| **Operating income before depreciation (EBITDA)** | **914** | **74** | **134** | **733** | **73** | **72** | **2 000** |
| *Margin in %* | *33.8%* | *5.6%* | *13.7%* | *44.2%* | *3.9%* | *11.4%* | |
| Depreciation and amortization | (515) | (2) | (14) | (100) | (18) | (68) | (717) |
| **Operating income before goodwill amortization** | **399** | **72** | **120** | **633** | **55** | **4** | **1 283** |
| Amortization | – | – | – | – | (166) | (1) | (167) |
| **Segment operating income** | **399** | **72** | **120** | **633** | **(111)** | **3** | **1 116** |
| *Margin in %* | *14.8%* | *5.4%* | *12.3%* | *38.1%* | *(6.0%)* | *0.0%* | |
| Corporate expenses not allocated | | | | | | | (3) |
| **Operating income** | | | | | | | **1 113** |

| In CHF millions<br>30.6.2001 | Fixnet: Retail and Network | Fixnet: Wholesale and Carrier Services | Enterprise Solutions | Mobile (unaudited) | debitel | Other | Total |
|---|---|---|---|---|---|---|---|
| Net revenue from external customers | 1 533 | 646 | 895 | 1 528 | 1 896 | 525 | 7 023 |
| Intersegment net revenue | 1 030 | 987 | 45 | 424 | – | 99 | 2 585 |
| **Net revenue** | **2 563** | **1 633** | **940** | **1 952** | **1 896** | **624** | **9 608** |
| Segment expenses | (1 701) | (1 543) | (815) | (1 015) | (1 803) | (509) | (7 386) |
| **Operating income before depreciation (EBITDA)** | **862** | **90** | **125** | **937** | **93** | **115** | **2 222** |
| *Margin in %* | *33.6%* | *5.5%* | *13.3%* | *48.0%* | *4.9%* | *18.4%* | |
| Depreciation and amortization | (512) | (4) | (15) | (139) | (24) | (82) | (776) |
| **Operating income before goodwill amortization** | **350** | **86** | **110** | **798** | **69** | **33** | **1 446** |
| Amortization | – | – | – | – | (185) | (1) | (186) |
| **Segment operating income** | **350** | **86** | **110** | **798** | **(116)** | **32** | **1 260** |
| *Margin in %* | *13.7%* | *5.3%* | *11.7%* | *40.9%* | *(6.1%)* | *5.1%* | |
| Gain on sale of real estate | | | | | | | 524 |
| Corporate expenses not allocated | | | | | | | (49) |
| **Operating income** | | | | | | | **1 735** |

As a result of organizational changes, the segments have been redefined compared with the previous year. Last year's figures have been restated to reflect the new structure. For information purposes, last year's figures are shown for the full year.

| In CHF millions<br>31.12.2000 | Fixnet: Retail and Network | Fixnet: Wholesale and Carrier Services | Enterprise Solutions | Mobile (unaudited) | debitel | Other | Total |
|---|---|---|---|---|---|---|---|
| Net revenue from external customers | 3 159 | 1 294 | 1 907 | 2 730 | 3 993 | 1 010 | 14 093 |
| Intersegment net revenue | 2 280 | 1 621 | 104 | 762 | – | 188 | 4 955 |
| **Net revenue** | **5 439** | **2 915** | **2 011** | **3 492** | **3 993** | **1 198** | **19 048** |
| Segment expenses | (3 794) | (2 831) | (1 728) | (2 009) | (3 826) | (1 017) | (15 205) |
| **Operating income before depreciation (EBITDA)** | **1 645** | **84** | **283** | **1 483** | **167** | **181** | **3 843** |
| *Margin in %* | *30.2%* | *2.9%* | *14.1%* | *42.5%* | *4.2%* | *15.1%* | |
| Depreciation and amortization | (1 114) | (5) | (32) | (312) | (39) | (160) | (1 662) |
| **Operating income before goodwill amortization** | **531** | **79** | **251** | **1 171** | **128** | **21** | **2 181** |
| Amortization | – | – | – | – | (324) | (1) | (325) |
| **Segment operating income** | **531** | **79** | **251** | **1 171** | **(196)** | **20** | **1 856** |
| *Margin in %* | *9.8%* | *2.7%* | *12.5%* | *33.5%* | *(4.9%)* | *1.7%* | |
| Corporate expenses not allocated | | | | | | | (26) |
| **Operating income** | | | | | | | **1 830** |

unaudited

3 **Debt**

| In CHF millions | 31.12.2000 | 30.6.2001 |
|---|---|---|
| **Long-term debt** | | |
| Swiss Post loan | 3 000 | 2 250 |
| Finance lease obligation | 2 102 | 2 965 |
| Other long-term debt | 72 | 97 |
| **Total** | **5 174** | **5 312** |
| Less current portion | (1 280) | (1 124) |
| **Total long-term debt** | **3 894** | **4 188** |
| **Short-term debt** | | |
| Current portion of long-term debt | 1 280 | 1 124 |
| Employee savings deposits | 607 | 587 |
| Short-term loans payable to affiliated companies | 629 | 60 |
| Other short-term debt | 169 | 138 |
| **Total short-term debt** | **2 685** | **1 909** |

4 **Sale of 25% of Swisscom Mobile to Vodafone**

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 for CHF 4,500 million. Effective January 1, 2001, Swisscom transferred the net assets of its mobile business to Swisscom Mobile AG.

The sale was completed in March 2001 when 25% of the shares of Swisscom Mobile AG were issued to Vodafone through a capital increase. In accordance with the agreement, Vodafone paid the first instalment of CHF 2,200 million on closing; CHF 25 million in cash and CHF 2,175 million in shares. Prior to closing, Swisscom entered into an amendment to the sales agreement with Vodafone for the subsequent sale of these shares. In accordance with this amendment, the shares were sold on the closing date of the transaction and Swisscom received cash of CHF 2,067 million, net of a transaction fee of CHF 108 million. The remaining CHF 2,300 million of the sales price will be paid in March 2002 at the latest. Vodafone can pay the second instalment in either cash or shares, or a combination of both. If Vodafone pays the second instalment in shares and Swisscom decides to sell the shares, Swisscom will incur a fee on this transaction, which will be recorded as an expense at the time of the transaction. Swisscom recorded a pre-tax gain on the sale, less transaction costs of CHF 168 million, of CHF 3,887 million.

In connection with establishing a separate legal entity for the mobile business – Swisscom Mobile AG – the parent company recognized a gain for tax purposes on the assessed increase in value of the mobile business. This increase in value was included in the transfer of assets from the parent company to Swisscom Mobile AG and is recorded as goodwill for tax purposes. This goodwill recorded by Swisscom Mobile AG will be amortized for tax purposes over 5 years. The actual gain that was recorded on the sale of shares received by Swisscom Mobile AG was not subject to income tax. As Swisscom Mobile AG and the parent are currently subject to different tax rates, the taxes that will be owed by the parent are different from the future tax deduction that will be received by Swisscom Mobile, which has resulted in a reduction of tax expense of CHF 138 million.

5 **Investments in affiliated companies**

In 2000 Swisscom acquired shares in three subsidiaries of tamedia AG. These three companies provide platforms for auctioning and classified personal ads. In connection with this transaction, Swisscom recognized goodwill of CHF 79 million. At the end of March 2001, two of the internet platforms ceased operations. As a result Swisscom recognized an impairment to the goodwill relating to these two companies of CHF 30 million.

## 6 Sale of real estate

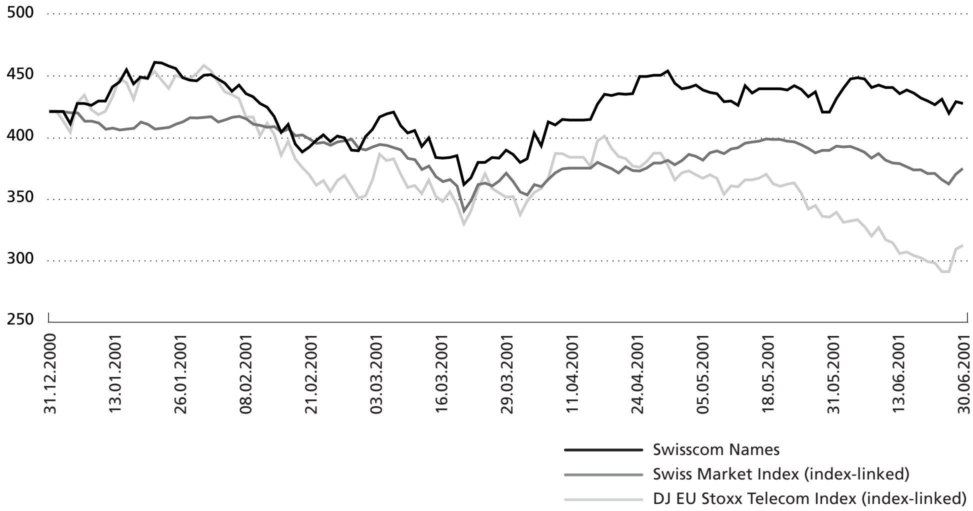
In March 2001 Swisscom entered into two agreements for the sale of real estate. The first agreement relates to the sale of 30 commercial and office properties for CHF 1,272 million to a consortium led by Credit Suisse Asset Management. The second concerns the sale of 166 commercial and office properties for CHF 1,313 million to PSP Real Estate AG and WTF Holding (Switzerland) Ltd. At the same time Swisscom entered into agreements to lease back some of the sold property space.

The first transaction was completed on April 1, 2001 and the second on June 19, 2001. The total gain on the sale of these properties after transaction costs and including the reversal of environmental provisions, was CHF 807 million. A number of the leaseback agreements qualify as finance leases and the gain on the sale of these properties of CHF 239 million will be deferred and released to income over the individual lease terms. The remaining gain of CHF 568 million represents the gain on the sale of buildings that were either sold outright or qualify as operating leases. The sale of a number of these properties could not be completed in the second quarter and the gain relating to these properties, which is expected to be approximately CHF 44 million, will be recognized in the second half of 2001.

The increase in the fair value of the real estate between the date it was either bought or constructed and January 1, 1998 – date of privatisation – is exempt from tax. The increase in the fair value of real estate after that date is taxable. The amount of tax expense recorded is based on Management's best estimates of the fair value of real estate at January 1, 1998 and is subject to agreement by the tax authorities and could therefore increase.

# Shareholder information

**Swisscom share price on the Swiss Exchange (in CHF)**




| 01.01.–30.06.01 | virt-x | NYSE |
|---|---|---|
| Closing price at 30.06.01 | CHF 428.00 | USD 23.825 |
| Year high | CHF 472.00 | USD 28.750 |
| Year low | CHF 358.50 | USD 20.550 |
| Total trading volume | 13 939 181 | 1 980 300 |
| Daily average | 113 327 | 15 842 |
| Total volume in millions | CHF 5 832.89 | USD 49.78 |
| Daily average in millions | CHF 47.42 | USD 0.40 |
| Market capitalization (100% at 30.06.01) in billions | CHF 31.47 | n/a |

Source: Bloomberg

**Share information**

The share capital amounts to CHF 1,839 million and is divided into 73,550,000 registered shares, each with a nominal value of CHF 25. The Shareholders' Meeting decided to reduce the nominal value by CHF 8 per share. The repayment in the course of the second half of the year will result in a nominal value of CHF 17. Of these registered shares, 48,175,250 (65.5%) are owned by the Swiss Confederation and 25,374,750 (34.5%) are distributed among 82,713 shareholders (at June 30, 2001). The unattributed shares average is around 16%.

Each share equals one vote. Voting rights can be exercised only 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 21, 2001 | Interim report 3rd quarter 2001 |
| March 26, 2002 | Annual results 2001 |
| April 30, 2002 | Shareholders' meeting, Hallenstadion Zurich-Oerlikon |
| May 3, 2002 | Dividend payment |

**Stock markets**

Swisscom shares are traded on the pan-European blue chip platform virt-x under the symbol "SCMN" (security no. 874251) and in the form of American depositary shares (ADS) at a ratio of 1:10 on the New York Stock Exchange under the symbol "SCM" (security no. 949527).

| Stock exchange | Bloomberg | Reuters | Telekurs |
|---|---|---|---|
| London (9.00 a.m.–6.00 p.m.) | SCMN VX | SCMN.VX | SCMN.VTX |
| New York (9.30 a.m.–4.00 p.m.) | SCM US | SCM.N | SCM |

**Statements on the Future**

Except for the historical statements and discussions contained herein statements contained in this 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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