Consolidated Financial Statements 2002

Dear Shareholder,

Swisscom remains "solid as a rock". During the first half of this year, we completed a 10% share buyback; this is exceptional among European telecommunication companies. The aim of this buyback was not only to increase the efficiency of our capital structure, but also to send out a clear signal: Swisscom puts its surplus cash sensibly to work or it returns it to you.

The purpose of this letter is twofold:

- To let you know how we think; what we feel; what we believe.
  This section is titled "Inside Swisscom".
- Equally importantly, we want to discuss with you the operating results of the first six months of the current year.
  This section is titled "Solid half year results 2002".

Inside Swisscom

Corporate social responsibility, good corporate governance, ethical behavior, fairness and integrity – all terms too often misused in corporate communication. What relevance do these terms have for Swisscom? In one word: respect. We feel good about our performance and show why we are motivated to continue what we are doing.

We conduct our business on the basis of a clear set of corporate beliefs and investment criteria. We have discussed these with you previously. We have listed the five **investment criteria** below and outline our current thinking.

- **Strategic fit.** Alignment with Swisscom's industrial and strategic objectives, i.e. tangible short to medium-term economies of scale and synergies.
- **Sustainable business model.** Sustainability must be calculable on the basis of empirical values.
- **Quality of management.** No necessity for redeployment of Swisscom management.
- **Appropriate price.** Reasonable, DCF-based evaluation.
- **Level of investment.** No concentration of risk as well as retention of our risk profile.

Swisscom strictly applied these five criteria to all considerations and analyses of foreign growth options in particular in the fields of data communication and hosting, IT and mobile service providing. All investment options we analyzed failed to meet our criteria, mainly because of the emphasis we put on synergies as a main component of strategic fit which has seldom been met in practice up to now. Another reason was continued instability in these sub-markets. Consequently, we completed a share buyback for CHF 4.3 billion in the first half of 2002 and bought back about 10% of our own shares.

Although we have refrained from making larger acquisitions, we continue to pursue options outside Switzerland in growth areas such as data communication and hosting, IT and mobile service providing. We will monitor the market and assess potential opportunities against the investment criteria defined and do not rule out the possibility of investment in areas which are of relevance to Swisscom for the future.

As well as synergy-driven investments, we will also consider investments to improve our value profile hence creating added value for you. We have constellations in mind which we can leverage better than you as a direct investor. To achieve this we will no longer base our criteria exclusively on strategic fit, but will also take into consideration other drivers (among others focus on value, uniqueness of constellation, no change to the risk profile, management input, creation of industrial option value) in order to increase value. The four remaining criteria continue to apply.

As outlined above, we examine a lot of possibilities to enhance our current position and to create sustainable value for our company. Acquisitions are becoming increasingly attractive thanks to significant price reductions on the capital markets. However, we consistently stay within the pre-defined framework of our beliefs and investment criteria. If an appropriate investment cannot be made, we will return our surplus cash to you.

swisscom

Solid half year results 2002

Through a CHF 4.3 billion share buyback and a dividend payment of CHF 728 million, Swisscom returned substantial funds to its shareholders in the first six months of 2002. In August 2002, another CHF 530 million was paid – cash and free of tax – to shareholders through a par value reduction of CHF 8 per share. In total, about CHF 27 per share (including put option from the share buyback) has been returned in 2002. This represents an attractive yield of around 6% on the average share price in the first half of this year. Although total shareholder return in the first half was close to zero – due to a share price decrease of almost 6% – Swisscom substantially outperformed the relevant benchmarks: the Swiss Market Index (SMI) fell by 6.8% and the Dow Jones European Telecom Index even dropped by 42.9%.

Despite cash payments to shareholders totaling a record amount of CHF 5.5 billion in 2002, Swisscom's balance sheet remains extremely robust with a net debt position of only CHF 1.35 billion at 30 June 2002. This represents a book leverage (net debt/shareholders' equity) of only 17.2%.

After the first six months of the current year, group EBITDA stood at CHF 2,268 million, just below the previous year's solid CHF 2,280 million. With largely unchanged capital expenditures (CAPEX) of CHF 514 million compared to last year, the first half of 2002 again turned out to be a cash machine.

What were the highs and lows of the first half 2002?

- Total revenues stabilized at CHF 7.1 billion (+1.7% year-over-year).
- Earnings before interest, taxes, depreciation and amortization (EBITDA) stabilized at CHF 2.3 billion (–0.6% year-over-year).
- Earnings before interest and taxes (EBIT) before exceptional transactions grew to CHF 1.3 billion (+5.8% year-over-year), due to lower depreciation and amortization charges.
- Market share development in general (mobile and wire-line business) turned out to be stable, with the notable exception of our share in local fixed line traffic that substantially dropped after the renumbering in Switzerland:
  - The renumbering plan was introduced in April 2002. As a result, all local traffic connections of customers with Carrier Pre Selection (CPS) are now routed via this operator. CPS had already been in place for domestic long distance (DLD) and international long distance (ILD) since 1998.
  - Consequently, the majority of total local traffic is now routed via third operators. Swisscom's market share in local traffic (Fixnet and Enterprise Solutions) fell to 67.3% at the end of the second quarter 2002 from 77.7% at the end of the first quarter 2002.
  - Simultaneously, we have introduced a new, nation-wide unified tariff system that abolishes differences between local and DLD calling rates: as of 1 May 2002 we apply flat fees for all calls within Switzerland (8 cts/min peak; 4 cts/min off-peak). This rebalancing means that average local calling has become more expensive, whereas DLD has become substantially cheaper. Even though this rebalancing has affected the revenue only marginally, it has been instrumental to soften the effects on revenue losses from the renumbering. The revenue decline resulting from renumbering was almost 7% compared to the first half of 2001, but would have been substantially higher without the tariff rebalancing.
  - This revenue decline is further softened – but not compensated – by an increase in wholesale business.
- There was strong growth in ADSL lines in the first half of 2002. At the end of June 2002 we account for approximately 101,177 lines, of which 55,041 are offered via Bluewin. In the first half of 2002, ADSL offerings have generated some CHF 25 million in revenue; however it partly substitutes traditional value-added services (VAS). ADSL will compete against the offerings of cable TV operators trying to enter the broadband and traditional voice businesses.
- The mobile business has been very robust. With net additions of around 115,000 customers during the first half of 2002, our 3.5 million customers create on average CHF 85 ARPU (average revenues per user per month). The EBITDA margin of the mobile segment stood at 49.0%, and came in at CHF 991 million compared to CHF 937 million the year before.
- To ensure the long term sustainability of its business units, Swisscom frequently reviews the efficiency of its activities and restructures where appropriate. In this regard, we have already communicated staff reductions in Fixnet (500 FTEs) and Enterprise Solutions (120 FTEs) in the context of the first quarter results in 2002. Due to economic developments, Swisscom Systems AG and Swisscom IT Services AG (both in the segment Other) operate in an increasingly difficult market environment. In view of the results and expectations in a difficult economic environment, 50 FTEs will be shed at Swisscom IT Services AG and up to 400 FTEs at Swisscom Systems AG.

Finally some remarks about regulatory developments in Switzerland. The Swiss government wants to force unbundling of the local loop (ULL) through a change in the ordinance. This would cause the unbundling to become effective in early 2003. Swisscom's position has always been very clear: we do not think there are legal grounds to enforce ULL simply by making a change in the ordinance. In addition, we do not believe there are convincing arguments to prove the advantages of unbundling. In the EU, ULL thus far has not made a significant impact since its introduction some 18 months ago and has not led to lower prices or better service quality. Competition in Europe is not improving through ULL nor is it likely to. Furthermore, alternative technologies (such as cable) are already available today. The only effect arising from introduction of ULL is that network operators have less incentive to invest into the local loop. No company will invest in an access network when the prospect of ULL benefiting a competitor endangers the amortization of investments. Swisscom will take all necessary steps to block ULL as it is likely to result in lower investment in the infrastructure available to our customers and delay further broadband development.

Outlook 2002

For the full year 2002, we strive for unchanged earnings before interest, taxes, depreciation and amortization (EBITDA) of CHF 4.4 billion compared to last year. We expect slightly lower EBITDA from Fixnet, Enterprise Solutions and debitel than in 2001, but this should be compensated by higher results at Mobile and Other (especially Swisscom IT Services).

Thanks to lower depreciation and amortization charges, we expect higher earnings before interest and taxes (EBIT) before exceptional transactions compared to last year. Due to the absence of last year's one-time gains from the sale of real estate and a 25% stake of Swisscom Mobile AG, net income for 2002 will be substantially lower than in the previous year.

Swisscom adopts a realistic and reflective approach: In our core business, we focus on ongoing improvement of operational efficiency and generating solid surplus cash. Whether and where we invest depends on the exchange of views with you and on our own considerations which we have outlined here. We remain concentrated on our core business and only acquire if we can remain what we are today. Solid!

Yours sincerely,

Dr Markus Rauh	Jens Alder
Chairman of the Board of Director	CEO

Appendix: Consolidated Financial Statements January–June 2002

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