

Swisscom Group Interim Report as at June 30, 2004:

## Swisscom reports stable business performance

	1.1.-30.6.2003	1.1.-30.6.2004	Change
Net revenue (in CHF millions)	4,977	4,999	0.4%
EBITDA (in CHF millions)	2,385	2,251	-5.6%
EBIT (in CHF millions)	1,536	1,471	-4.2%
Net income (in CHF millions)	952	757	-20.5%
Equity Free Cash Flow (in CHF millions)	498	1,755	252.4%
ADSL accesses (at 30.6)	317,000	656,000	106.9%
Number of mobile customers (at 30.6 in millions)	3,675	3,898	6.1%
Number of full-time employees at 30.6	16,507	15,721	-4.8%

Swisscom sold its stake in debitel on 8 June 2004. As a result, debitel is separately disclosed as a discontinued operation in the Swisscom consolidated financial statements.

**Swisscom posted a 0.4% increase in revenue (excluding debitel) to CHF 5 billion for the first half of 2004. Operating income before interest, tax, depreciation and amortization (EBITDA) fell by 5.6% year-on-year to CHF 2.25 billion. The 20.5% reduction in net income to CHF 757 million is largely due to the fact that the currency translation loss of CHF 238 million accumulated since the purchase of the debitel holding in 1999 was rebooked to income when the holding was sold. Excluding the debitel Group and in the face of continuing strong competition and unchanged regulatory conditions, Swisscom expects to close 2004 with a consolidated revenue of around CHF 10 billion and operating income before interest, tax, depreciation and amortization of approximately CHF 4.3 billion.**

Swisscom posted a 0.4% increase in net revenue (excluding debitel) to CHF 4,999 million at June 30, 2004. While Fixnet and Mobile reported higher revenues (up 0.3% and 5.6% respectively), revenue for Enterprise Solutions was down 8.6%. Swisscom's operating income before interest, tax, depreciation and amortization (excluding debitel) decreased year-on-year by 5.6% to CHF 2,251 million. Operating income increases of CHF 43 million for Fixnet and CHF 38 million for Enterprise Solutions were offset by decreases of CHF 79 million for Mobile and CHF 132 million for the Corporate segment.

### **One-off effect from the sale of debitel - net income down**

Swisscom sold its stake in debitel on 8 June 2004. debitel is separately disclosed as a discontinued operation in the consolidated financial statements. In the first half of 2004 this discontinued operation posted a loss of CHF 241 million (prior-year period minus CHF 77 million), comprising a result of CHF 5 million for the period up to completion of the transaction and a loss of CHF 246 million from the sale. The loss includes a cumulative currency translation loss of CHF 238 million since the stake was purchased in 1999, which was previously recorded under shareholders' equity and not charged to income.

Net income fell by 20.5% or CHF 195 million, mainly due to the rebooking of this currency translation loss. Excluding debitel, net income declined by CHF 31 million.

Equity free cash flow rose year-on-year by CHF 1,257 million to CHF 1,755 million. The fall in net cash provided by operating activities was compensated for by lower net investments, a drop in payments to minority interests, and reduced debt repayments as well as a net cash inflow of CHF 573 million from the sale of debitel.

### **Outlook for 2004 unchanged, EBITDA of CHF 4.3 billion**

Without the debitel Group and in the face of continuing strong competition and unchanged regulatory conditions, Swisscom expects to close the current financial year with a consolidated revenue of around CHF 10 billion and operating income before interest, tax, depreciation and amortization (EBITDA) of approximately CHF 4.3 billion. Capital expenditure in 2004 will be in the order of CHF 1.3 billion.

## **Segments**

**Fixnet** posted a rise of 0.2% year-on-year in revenue from external customers to CHF 2,296 million. The higher revenue from connection charges - due to strong growth in the broadband access (ADSL) area - compensated for lower revenues in other areas. Revenue from retail traffic declined by 4.6% year-on-year to

CHF 642 million, mainly due to the ongoing mobile substitution effect and the migration of Internet traffic to ADSL.

Revenue from wholesale traffic fell 1.2% to CHF 340 million. The positive effect on revenue due to higher volumes in the international termination area was offset by declining revenues due to a price reduction in regulated national interconnection charges and lower international incoming traffic volumes.

Revenue from access fees rose by 10.1% to CHF 923 million due to continuing growth in broadband (ADSL) access lines. The number of ADSL access lines has doubled within the year to 656,000, of which 389,000 are for Bluewin retail customers and 267,000 for other providers' customers. Access fees cover fees for analog and digital access lines as well as broadband access lines (ADSL) for retail and wholesale customers, and Internet subscription fees. The drop in other revenue is attributable to the sale of the stake in Telecom FL AG in October 2003, and lower revenue from leased lines.

Fixnet's year-on-year reduction of 1.8% in operating expenses to CHF 1,758 million is due mainly to the lower number of employees and reduced expenditure on job-reduction measures. EBITDA rose by 4.0% to CHF 1,121 million, resulting in a margin of 38.9% (2003: 37.6%). Fixnet expects to close 2004 with lower revenue and an EBITDA on a par with the previous year.

The **Mobile** segment posted a year-on-year increase of 4.9% in revenue from external customers to CHF 1,805 million. The 3.7% growth in revenue from connectivity voice is mainly attributable to expansion of the customer base, which more than offset the loss in revenue from national roaming following termination of the agreement between Swisscom Mobile and another mobile provider in mid-2003. The number of Mobile customers rose year-on-year by 223,000 to 3.898 million, primarily due to the successful rollout of Vodafone live!. The average minutes per user per month (AMPU) dropped from 121 to 118 minutes compared with the previous year. By contrast, the average revenue per user (ARPU) was on a par with the previous year's level.

Revenue from connectivity data and value added services rose by 12.9%, largely due to an increased customer base and the direct billing of SMS traffic with other network providers. Other revenue increased by 14.5%, mainly due to higher terminal equipment sales.

Operating expenses rose year-on-year by 19.8% to CHF 1,169 million. The expanded customer base led to higher spending on customer acquisition and loyalty measures as well as increased expenditure on the purchase of terminal equipment. Operating expenses for the first half of 2004 also include the costs of a new agreement with Vodafone governing access to Vodafone products and services, notably Vodafone live!. In the previous year, the associated costs for the entire year were recorded in the fourth quarter of 2003.

Operating income (EBITDA) fell by 7.5% to CHF 977 million due to the increased cost associated with higher customer numbers, termination of the national roaming agreement, and the cost of a new agreement with Vodafone. As a result of these effects, the EBITDA margin declined from 52% to 45.5%. Due to the increased number of mobile subscribers, the Mobile segment expects to close 2004 with higher revenue and EBITDA on a par with the previous year.

The **Enterprise Solutions** segment posted a year-on-year decrease of 10.9% in revenue from external customers to CHF 491 million. Traffic revenue fell by 13.5% to CHF 154 million, largely due to substitution by mobile communications and lower volumes and prices as a result of ongoing competitive pressure. Networking revenue declined as a result of lower volumes and prices in the leased-line business, while revenue from the in-house and processes businesses fell mainly due to lower revenue from business numbers.

Operating expenses fell by 15.4%, mainly on account of lower purchasing volumes in line with the lower revenue, and due to cost savings and reduced spending on workforce reduction measures (minus CHF 2 million as opposed to CHF 32 million for the same period in 2003).

The above-mentioned factors led to a CHF 38 million rise in EBITDA to CHF 65 million, while the EBITDA margin amounted to 11.5% as opposed to minus 4.4% for the previous-year period. Given sustained pressure on prices and ongoing competition, Enterprise Solutions expects to close 2004 with lower revenue but an EBITDA on a par with the previous year.

The **Other** segment comprises the Group companies Swisscom Systems AG, Swisscom IT Services AG, Swisscom Broadcast AG, the Billag Group and Swisscom Eurospot AG. Revenue from external customers dropped by 2.9% year-on-year, largely due to lower revenues posted by Swisscom Systems and Swisscom IT Services on account of the weak economy. Revenue for Billag rose due to the acquisition of Billag Card Services AG in December 2003.

Operating expenses dropped year-on-year in line with the revenue trend and as a result of savings related to a reduced workforce. Expenses also include costs relating to the setting up of Swisscom Eurospot's international WLAN business.

EBITDA remained at the previous year's level primarily as a result of cost savings, while the EBITDA margin rose from 17.2% to 17.5%. Following the acquisition of Billag Card Services AG in December 2003, the Other segment expects to close the current year with higher revenue as well as a higher EBITDA as a result of lower spending on workforce reduction measures.

**The detailed interim report is available online at:**

<http://www.swisscom.com/halfyearreport-2004>

Berne, 13 August 2004

#### **Cautionary statement regarding forward-looking statements**

This communication contains statements that constitute "forward-looking statements". In this communication, such forward-looking statements include, without limitation, statements relating to our financial condition, results of operations and business and certain of our strategic plans and objectives. Because these forward-looking statements are subject to risks and uncertainties, actual future results may differ materially from those expressed in or implied by the statements. Many of these risks and uncertainties relate to factors which are beyond Swisscom's ability to control or estimate precisely, such as future market conditions, currency fluctuations, the behavior of other market participants, the actions of governmental regulators and other risk factors detailed in Swisscom's past and future filings and reports filed with the SWX Swiss Exchange and the U.S. Securities and Exchange Commission and posted on our websites. Readers are cautioned not to put undue reliance on forward-looking statements, which speak only of the date of this communication. Swisscom disclaims any intention or obligation to update and revise any forward-looking statements, whether as a result of new information, future events or otherwise