

Swisscom Group Interim Report at June 30, 2005:

# Competition puts increased pressure on prices

	1.1-30.6.2004	1.1-30.6.2005	Change
Net revenue (in CHF millions)	4,999	4,912	-1.7%
EBITDA (in CHF millions)	2,243	2,199	-2.0%
EBIT (in CHF millions)	1,466	1,496	2.0%
Net income (in CHF millions)	757	1,116	47.4%
Equity free cash flow (in CHF millions)	1,755	1,548	-11.8%
ADSL accesses (at 30.6)	656,000	948,000	44.5%
Mobile customers (at 30.6 in millions)	3.90	4.04	3.7%
Number of full-time equivalent employees at 30.6	15,721	15,307	-2.6%

\*Net income after deduction of minority interests

**Net revenue of the Swisscom Group fell year-on-year by 1.7% to CHF 4.91 billion. Cost savings were unable to compensate fully for the drop in revenue, and operating income before interest, taxes, depreciation and amortization (EBITDA) fell by 2.0% to CHF 2.2 billion. However, due to lower depreciation and a higher net financial result, net income after deduction of minority interests rose by 47.4% to CHF 1.1 billion. Following the share buy-back programs, a higher increase of 58.8% was recorded in net earnings per share, which ended the first half of 2005 at CHF 18.21. As announced on May 12, Swisscom expects to close 2005 with a drop in revenue to around CHF 9.6 billion and a reduction in EBITDA to approximately CHF 4.1 billion, primarily as a result of intense competition and pressure on prices at Mobile and Fixnet.**

Swisscom Group revenue from external customers dropped year-on-year by CHF 87 million (1.7%) to CHF 4.91 billion. Fixnet recorded a decline in revenue of CHF 61 million (2.7%). The increase in access charges

following growth in ADSL failed to compensate for the lower revenue from traffic. Revenue for Mobile increased by CHF 18 million (1.0%) primarily due to a rise in customer numbers. Solutions recorded a drop in revenue of CHF 74 million (11.7%) as a result of sustained pressure on prices and ongoing competition. Revenue posted by the "Other" segment rose by CHF 33 million (14.5%) due to higher third-party revenue generated by Swisscom IT Services.

Cost savings failed to reduce operating expenses sufficiently to offset the drop in revenue, with the result that EBITDA fell by CHF 44 million (2.0%) to CHF 2.2 billion. The net financial result increased by CHF 108 million, largely due to a year-on-year improvement in net interest paid as well as a book profit from the early repayment of loans granted to the purchasers of debitel (vendor loan notes). Income tax expense amounted to CHF 295 million (2004: CHF 282 million), corresponding to an effective income tax rate of 18.5% (2004: 19.4%).

### **Consolidation of profits following share buy-backs**

Net income before deduction of minority interests rose year-on-year by CHF 365 million (39.2%) to CHF 1,297 million. The drop in EBITDA was more than offset by lower depreciation, a higher net financial result and the absence of the loss from discontinued operations (debitel). After deduction of minority interests, net income increased by CHF 359 million or 47.4% to CHF 1,116 million. Higher net income and the lower average number of shares resulting from the share buy-back programs led to an increase of 58.8% in net earnings per share to CHF 18.21.

### **Lower equity free cash flow – changes in the pension fund**

In the first half of 2005, equity free cash flow dropped by CHF 222 million to CHF 1,533 million. The previous-year figure included net cash of CHF 573 million from the sale of debitel. Income in the first half of 2005 included CHF 351 million from the early repayment of loans granted to the purchasers of debitel (vendor loan notes) as well as CHF 201 million and CHF 28 million from the sale of holdings in Infonet and Intelsat respectively. Payment of CHF 286 million for acquisition of a stake in Antenna Hungaria as well as a planned special payment into the Swisscom pension fund will impact income in the second half of 2005.

As reported in the 2004 year-end results, Swisscom is currently revising its staff pension plans to take account of changed framework conditions. Swisscom intends to also transfer its older employees from the defined benefit plan to the dual pension plan. With a view to financing the changes, Swisscom plans to make a contribution of some CHF 300 million in the fourth quarter of 2005. This one-off payment will be offset by a slight decrease in future personnel expenses. The complan pension fund Board of Trustees has still to decide on the proposed change.

**Outlook for 2005 unchanged**

As announced on May 12, due to intense competition and price reductions at Mobile and Fixnet Swisscom expects to close 2005 with revenue of around CHF 9.6 billion and operating income before interest, taxes, depreciation and amortization (EBITDA) in the region of CHF 4.1 billion. The year-on-year reduction in revenue and EBITDA of around CHF 0.4 billion and CHF 0.3 billion respectively is primarily attributable to lower revenue from Fixnet and Mobile traffic, price reductions at Mobile (in particular for termination), and the transfer of International Carrier Services activities to the joint venture with Belgacom. Capital expenditure at the Swisscom Group will once more be in the region of CHF 1.2 billion.

**Segments**

**Fixnet** reported a year-on-year drop of 2.7% in revenue from external customers to CHF 2,235 million. The increase in access charges as a result of sustained growth in broadband access lines (ADSL) was accompanied by reductions in revenue from retail and wholesale traffic.

Revenue from retail traffic declined by 10.3% (CHF 66 million) to CHF 576 million. The drop in revenue from local and long-distance traffic as well as Internet traffic is mainly the result of ongoing migration of Internet traffic to ADSL. Revenue was also impacted by the entry of cable TV companies into the market and the introduction of new pricing systems. Revenue from fixed-to-mobile traffic as well as international traffic fell due to lower volumes as a result of strong competition.

Revenue from wholesale traffic decreased by 12.9% to CHF 296 million. Wholesale national traffic declined due to the migration of Internet traffic to ADSL and to reductions in interconnection tariffs. Lower prices also led to a drop in revenue from wholesale international traffic.

Access revenue rose by 6.3% to CHF 981 million as a result of an increase in broadband access lines (ADSL). The growth in broadband access lines (ADSL) was accompanied by a reduction in analog and digital lines. The number of ADSL access lines rose year-on-year by 44.5% to 948,000, of which 603,000 were for Bluewin retail customers and 345,000 for other providers' customers. The number of digital and analog lines dropped by 2.8% to 3.87 million due to the entry of cable TV companies into the market. Revenue from other segments fell due to lower revenues recorded by the Mobile and Solutions segments.

Fixnet reported a 4.2% drop year-on-year in operating expenses to CHF 1,685 million, as a result of lower expenditure in line with lower revenue, and due to cost savings. Expenses included CHF 40 million (2004: CHF 7 million) relating to workforce reduction measures. Fixnet recorded a 5.0% drop in EBITDA to CHF

1,065 million. Cost savings were unable to compensate for the decline in revenue. The EBITDA margin narrowed from 38.9% to 38.7%.

**Mobile** increased revenue from external customers year-on-year by 1.0% to CHF 1,823 million as a result of a growth in customer numbers. On June 1, 2005, Swisscom Mobile reduced its network termination charges by 40% and launched a new product featuring a flat rate of CHF 0.50 per call for up to one hour (plus another CHF 0.50 for every subsequent hour).

The number of customers rose year-on-year by 146,000 or 3.7% to 4.04 million. This increase was attributable primarily to growing penetration of the mobile market, value-oriented churn management and the introduction of new tariff models. In 2004 a new law was introduced which obliged prepaid customers to register with their network providers. As a result, some 124,000 lines had been deactivated by the end of 2004 due to failure of customers to register. These customers are no longer included in the subscriber numbers.

Revenue from connectivity voice rose 0.3% to CHF 1,122 million, mainly due to expansion of the customer base. Revenue from connectivity data and value added services grew by 15.4% year-on-year to CHF 292 million, chiefly as a result of an increased customer base and the introduction of new data services. Other revenue fell by 19.5% or CHF 17 million due to reduced sales of customer handsets. Revenue from other segments dropped, primarily due to a reduction of 16.7% to CHF 284 million in the volume of handsets delivered to Fixnet for sale in Swisscom Shops.

Cautious customer behavior caused a drop in average minutes per user (AMPU) per month from 118 to 116. This in turn led to a reduction in average revenue per user (ARPU) per month. Lower revenue from SMS messaging is the result of an SMS promotion conducted in March 2004. For a flat rate of CHF 5, customers were able to send an unlimited number of SMS messages anywhere in Switzerland. Excluding this promotion, the number of SMS messages sent was higher than the previous year.

At CHF 1,106 million, operating expenses at Mobile were 5.4% lower than the previous year due to reduced spending on customer acquisition and loyalty measures, lower expenditure on handset procurement, and cost savings. As a result of these factors, operating income before interest, taxes, depreciation and amortization (EBITDA) fell by 2.5% to CHF 1,001 million and EBITDA margin increased from 45.5% to 47.5%.

The price adjustment for termination will negatively impact revenue for 2005 by a maximum of CHF 165 million. This effect will be lessened if other providers also reduce their termination charges. While volumes are expected to increase as a result of these measures, this will not be enough to compensate for the price reduction in the short term and will therefore negatively impact EBITDA. The launch in June 2005 of

a new product – Swiss Liberty – attracted new customers. All in all, the price adjustments will negatively impact the 2005 year-end revenue and EBITDA.

The **Solutions** segment posted a year-on-year decrease of 11.7% in revenue from external customers to CHF 560 million. Traffic revenue fell by 14.4% to CHF 131 million as a result of lower volumes due to substitution by mobile communications and lower prices caused by ongoing competitive pressure. Revenue from leased lines dropped by 19.1% to CHF 76 million as a result of substitution and optimization through lower-priced Internet-based (IP) offerings. The 31.7% reduction in other revenue to CHF 28 million was largely due to lower revenue from the rental of PBX systems.

The 6.6% drop in operating expenses to CHF 579 million is mainly a result of lower purchasing volumes in line with lower revenue, as well as lower personnel expenses due to the reduced headcount. The above-mentioned factors led to a 49.5% reduction in EBITDA to CHF 49 million, while EBITDA margin amounted to 7.8% compared with the previous-year 13.5%.

The "**Other**" segment mainly comprises the Group companies Swisscom IT Services AG, Swisscom Broadcast AG, Billag AG, Billag Card Services AG (renamed Accarda AG on July 1) and the Swisscom Eurospot Group. Revenue from external customers increased year-on-year by 14.5% to CHF 261 million as a result of higher revenue generated by Swisscom IT Services for its IT outsourcing services.

Operating expenses increased by 4.3% to CHF 410 million largely in line with revenue. Since revenue rose more than operating expenses, EBITDA grew by 18.2% to CHF 91 million. EBITDA margin stood at 18.2% (2004: 16.4%).

The detailed interim report is available on the Internet at:

<http://www.swisscom.com/q2-report-2005>

Berne, August 10, 2005

#### **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

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